

**Memorandum**

Date MAY 5 1995

From June Gibbs Brown
Inspector General *June G Brown*

Subject Administration on Aging Nutrition Program for the Elderly Use of United States
Department of Agriculture Commodities (A-01-93-02510)

To Fernando Torres-Gil
Assistant Secretary for Aging

The attached final report presents the results of our audit, "Administration on Aging Nutrition Program for the Elderly Use of United States Department of Agriculture Commodities." The objectives of this audit were to identify:

- (1) incentives for States' greater use of low cost commodities as a means of providing meals to older Americans, without increasing Federal expenditures; and
- (2) barriers to States' use of commodities that caused other States not to use commodities, and solicit input from States as to how the commodity program could be improved to encourage more use of commodities.

The 18 States we reviewed generally agree there are opportunities to provide more meals to older Americans, without increasing Federal expenditures, by using more United States Department of Agriculture (USDA) commodities. However, they also responded that barriers exist to using more commodities. The States acknowledged that removing the barriers would likely increase their use of commodities.

The barriers can be overcome by:

- ▶ having better communications and working relationships with State Distribution Agencies which handle USDA commodities;
- ▶ assuring a better variety of bonus commodities; and
- ▶ improving dependability, quality, and packaging of commodities.

The USDA Nutrition Programs for the Elderly (NPE) in the States are staffed by very innovative people searching for improved methods and ways to squeeze the last few meals out of a budget. However, the States' responses indicate that the NPE need a forum for expressing their concerns and a resolution process to ensure solutions for improving commodity distribution.

The Administration on Aging (AoA) does not have direct authority over how the commodity program is administered. However, we believe that in its leadership role, the AoA could become more involved with States and USDA in expanding the use of commodities and taking advantage of relative savings.

We obtained USDA's comments concerning the findings and recommendations and have included them in appropriate sections of the report. They expressed concern about the limited use of commodities in the NPE and agree that greater commodity usage would enable States to increase their meal service without increases in Federal expenditures. Therefore, a renewed focus on this issue at the Federal level is thoroughly appropriate at this time. The USDA also stated that the greatest potential for increasing commodity use in NPE lies in promotional efforts and improved communications, rather than in changes to program operations and requirements.

In response to our draft report (See APPENDIX I), AoA agreed that promoting commodity usage may better expand nutrition services at a lower cost than other alternatives. In addition, AoA believes that developing innovative ways, such as emphasizing bonus commodities, to expand nutrition services at a limited cost is essential. Both AoA and USDA staff will address these issues through regular meetings and improved communication and that the resolution of these issues will be addressed through Memoranda of Understanding regarding policy issues and Joint Memoranda regarding programmatic issues. Concerning our final recommendation, AoA plans to develop and communicate a uniform message to USDA on the concerns of dependability, quality and packaging of commodities.

Please advise us, within 60 days, on any further actions taken or planned on our recommendations. If you have need for further information, please contact me or have your staff contact John A. Ferris, Assistant Inspector General for Administration of Children, Family and Aging Audits, at (202) 619-1175. To facilitate identification, please refer to CIN: A-01-93-02510 in all correspondence relating to this report.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ADMINISTRATION ON AGING
NUTRITION PROGRAM FOR THE
ELDERLY USE OF UNITED STATES
DEPARTMENT OF AGRICULTURE
COMMODITIES**



**JUNE GIBBS BROWN
Inspector General**

**MAY 1995
A-01-93-02510**

EXECUTIVE SUMMARY

BACKGROUND

Under the Older Americans Act (Act), the Administration on Aging (AoA) grants State Agencies on Aging and Tribal Organizations funds for the Elderly Nutrition Program (ENP) which provides nutrition services to older Americans. State Agencies on Aging fund Area Agencies on Aging (AAA) which contract with local nutrition projects to deliver services. Nutrition services include primarily meals, however, screening, education, counseling, and outreach are also available.

The United States Department of Agriculture (USDA) also supports the ENP through its Nutrition Programs for the Elderly (NPE) which provides entitlements either in commodities, cash, or a combination. Both AoA's and USDA's responsibility in the NPE program is defined under the Act. In Fiscal Year (FY) 1993, USDA distributed only 3 percent (\$5 million) of USDA entitlements in commodities and 97 percent (\$145 million) in cash. States generally choose cash because of barriers that inhibit the use of commodities.

OBJECTIVES

To identify incentives for States' greater use of low cost commodities as a means of providing meals to older Americans, without increasing Federal expenditures; and

To identify barriers to States' use of commodities, and solicit States' input on improvements needed to expand their use of commodities.

RESULTS OF AUDIT

The 18 States which responded to our questionnaire, generally agreed that using more USDA commodities can provide more meals to older Americans, without increasing Federal expenditures. The USDA commodities are considered a better value than cash because, as Connecticut responded, "*During FY'93, we received \$48,011 worth of bonus commodities....[and] we received commodities worth \$66,000 more than we paid. As a result, we were able to serve approximately 22,000 additional meals....*" The other States reviewed also noted the value of commodities.

However, they also responded that barriers exist to using more commodities. The States acknowledged that removing the barriers would likely increase their use of commodities.

The barriers can be overcome by:

- ▶ having better communications and working relationships with State Distribution Agencies (SDA) which handle USDA commodities;
- ▶ assuring a better variety of bonus commodities; and
- ▶ improving dependability, quality, and packaging of commodities.

1. BETTER COMMUNICATIONS AND WORKING RELATIONSHIPS WITH USDA COMMODITY SDAs

The 18 States generally responded that good communications and working relationships with the SDA to identify and respond to nutrition needs assure that the commodity program runs efficiently and cost effectively. The importance of this issue is that the SDA is usually an independent State Agency that receives, warehouses, and distributes the commodities to recipient agencies including NPE and schools. Although USDA requires each SDA to have an advisory council to address recipient agency concerns, the States reported that there is a barrier to State NPE representation on the SDA Advisory Council (Council). The USDA regulations (7 CFR 210.28) concerning the Council composition focus exclusively on the school lunch program. Although NPE are not mentioned, they are not specifically excluded. The need for more NPE participation to establish a basis for attending to nutritional needs for the elderly was brought out in the States' responses. Only Oklahoma participates on a SDA Council and responded "...at the current time communication is at an all time high between...the SDA and NPE's....According to [the] SDA 'NPE representation on the SDA Advisory Council is vital'." Other States responded that they were either not aware of the Council or that they were not asked to participate. Alaska stated that "[We are] not sure the SDA wants NPE programs represented on the state advisory board....Improved communication in the form of an SDA anxious to enroll more NPE's would probably increase the number of NPE's participation....[We] didn't know there was/is an advisory board until last year."

2. ASSURING A BETTER VARIETY OF BONUS COMMODITIES

The 18 States generally responded that bonus commodities, additional items not charged against the State's entitlement, make it worthwhile to participate in the commodity program. As Colorado responded "*Bonus foods reduce the raw food costs and enables the project to serve more meals....Approximately 29,000 additional meals were served state wide using bonus commodities.*" Nine States acknowledged that bonus commodities are the main reason they continue using commodities. However, four States that stopped using commodities reported that the overall commodity program lost its attractiveness and cost advantage when the variety of bonus items diminished, but more variety in bonus commodities would influence their return to using commodities. Indiana stated that "*If bonus product*

were made available to the degree it was in 1988 and 1989 or other enticements which would allow for expansion of the number of meals, the Bureau would not hesitate to revert back to commodities."

3. IMPROVING DEPENDABILITY, QUALITY, AND PACKAGING OF COMMODITIES

We also asked the States for their input on how to improve the commodity program to facilitate more use of commodities. The concerns expressed were that the commodity program does not assure them of having the right product, in the right place, at the right time. The responses focused on: (1) **dependability**, if we order it, are we going to get it, (2) **quality**, fat and sodium content is too high, and (3) **packaging**, different packaging needs for small and large projects.

CONCLUSION AND RECOMMENDATIONS

We recognize that AoA does not have direct authority over how the USDA commodity program is administered. However, we believe that in its leadership role, the AoA could become more involved with States and USDA in addressing the barriers to more use of commodities. The States' responses as to how the program could be improved are a signal that they need an advocate at the Federal level to provide a mechanism for expressing their concerns and a resolution process to ensure that solutions will be forthcoming.

To improve its leadership role, we are recommending that AoA work with USDA to develop a strategy to address barriers that impede the States' ability to use commodities.

The strategy should emphasize the importance that improved working relationships with SDAs would have on the States' decisions to expand use of commodities. The AoA should pursue a memorandum of understanding with USDA concerning State NPE representation on the Council.

The strategy should also emphasize the significant impact that the variety of bonus commodities have on the States' decisions to expand use of commodities.

We are also recommending that AoA develop and communicate to USDA a uniform message on the concerns of dependability, quality, and packaging of commodities.

AoA COMMENTS

In response to our draft report, AoA agreed with our recommendation to expand the usage of commodities. The AoA stated "... promoting commodity usage may better expand nutrition services at a lower cost than some other alternatives." Regarding our recommendation to emphasize the importance of bonus

commodities, the AoA stated it "...believes that developing innovative ways, such as emphasizing bonus commodities, to expand nutrition services at a limited cost is essential." In addressing these two recommendations, the AoA also stated that AoA and USDA staff "...will address policy and programmatic issues of their respective programs through regular meetings and improved communication. The resolution of these issues will be addressed through Memoranda of Understanding regarding policy issues and Joint Memoranda regarding programmatic issues." The AoA also stated agreement with our recommendation to develop and communicate a uniform message to USDA on the concerns of dependability, quality and packaging of commodities. The AoA stated it "...believes that this recommendation can be addressed by: using data obtained from the national evaluation of the Elderly Nutrition Program... convening with USDA a roundtable of commodity users and non-users to identify solutions to commodity usage barriers; using input from the Administration on Aging National Nutrition Advisory Council; and recommending that the issues be addressed by the USDA National Advisory Council on Commodity Distribution.

OAS RESPONSE - AoA

Since AoA generally agreed with our recommendations we have no comments to the AoA response. Certain features of the Older Americans Act and features of other Federal programs are under study by Congress.

USDA COMMENTS

The USDA agrees that commodities can enable NPE to increase their meal service without increasing expenditures. In this era of fiscal restraint, State NPEs may be willing to use more commodities. Therefore, a renewed focus on this issue at the Federal level is thoroughly appropriate at this time. However, USDA believes that bonus commodities are not a critical factor in States' decisions to use commodities. The USDA believes that the greatest potential for increasing commodity use lies in promotional efforts and improved communication, rather than in changes to program operations and requirements. They stated that improved communications with AoA over the past 2 years have laid the ground work for a successful cooperative effort to promote commodity use.

OAS RESPONSE - USDA

We believe that the USDA should address the States' concerns about the quantity and variety of bonus commodities. An objective of our review was to identify issues that States perceived as barriers to using more commodities. Nine States specifically stated that bonus commodities are the main reason they continue using commodities and four States that stopped using commodities reported that the overall commodity program lost its attractiveness when the variety of bonus items diminished. We believe these responses indicate that bonus commodities are a factor in a States decision to use commodities.

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INTRODUCTION

Title III of the Act authorizes the AoA to make grants to States to support the NPE. The Act also authorizes the USDA to support States' NPE. One of the objectives of USDA participation in the program is to increase the market for domestically produced foods acquired under surplus removal or price support operations.

The USDA provided about \$150 million to State Agencies on Aging during FY 1993. The USDA allotment to each State is available in commodities, cash or a combination. States chose 97 percent of their 1993 USDA entitlement or \$145 million in cash rather than commodities. Ten States received a total of \$5 million of commodities, which represented from 3 to 61 percent of their 1993 USDA entitlement.

The AoA share of expenditures for nutrition services during FY 1993 was about \$431 million. The AoA allotment to each State is available to support nutritious meals, nutrition education and other appropriate nutrition services for older Americans. The AoA allotment cannot be used for USDA commodities.

States may serve meals to older Americans in either a congregate setting or delivered to the home. During FY 1993, States' NPE served approximately 244.2 million meals.

BACKGROUND

States get an annual USDA entitlement based on a per meal allowance. States then choose whether to receive their entitlement in commodities, cash or a combination.

The commodity program is directed at the Federal level by the USDA which develops a plan based on market information, and amount of funds available. The Food and Nutrition Service (FNS) develops a preliminary annual purchase plan for all domestic commodity assistance programs. To create a realistic purchase plan, FNS balances market information from the Agricultural Marketing Service (AMS) and the Agricultural Stabilization and Conservation Service (ASCS) with entitlements, funds available, commodity ordering trends, and users' preferences. The annual Commodity Acceptability Reports, analyzed by FNS, reflect all programs' commodity preferences. Where flexibility exists and market conditions permit choices, these reports help FNS make purchase decisions. When commodity inventories, harvest forecasts, market prices, and other factors are definite, FNS, AMS, and ASCS develop a final purchase plan. This final plan, approved by the Secretary of Agriculture, includes all commodities intended for purchase and the estimated cost, the planned appropriation account, and the anticipated program outlets for each commodity.

For surplus-removal type commodities, which are purchased by AMS, FNS surveys State Agencies on the quantity, form and packing size and shipping period desired. The FNS authorizes AMS to make purchases and works closely with AMS to procure commodities in accordance with States' requests. After commodities are purchased, FNS allocates purchases to States on a pro rata or approved-food-package basis. Allocations of commodities take into consideration State entitlements or participation, depending on the program.

For price-support type commodities, which are purchased by ASCS, FNS monitors ordering and purchases to ensure USDA meets program entitlements and spends available funds. Occasionally, commodity "caps" are established to limit the amount of commodities a State may order for a particular program. In those cases, FNS must also monitor ordering at the cap level.

The USDA supports nutrition programs for several recipient groups including School Lunch and Breakfast, and the NPE. Prior to the beginning of each fiscal year, USDA provides each SDA with the State's commodity entitlements for each type of recipient group. The entitlement is the dollar value of commodities that the State can expect to receive during the course of the year. The USDA relies on the designated SDA in each State to receive, warehouse, and distribute the commodities to recipient agencies.

The commodities that make up the State's entitlement are divided into two groups. Group A commodities include: meat, fish, poultry, fruits, and vegetables. Group B commodities include dairy products, grains, oils, and peanut products. The NPE are permitted to order as much of their entitlement from either group.

There is another category of commodities called bonus items that are available to an SDA. Bonus commodities are made available only to AAA and States opting to receive at least 20 percent of their entitlement in commodities. These bonus commodities are not charged against entitlement.

Bonus commodities include: cheese, butter, rice, honey, nonfat dry milk, cherries, ground beef, canned beef, raisins, prunes, apple products, figs, and flour within certain limitations. These bonus items are not available as "free" unless the NPE ordered enough regular commodities to account for 20 percent of its entitlement.

Under the cash option, the NPE receives a fixed amount of money per meal which is established at the beginning of the year. The reimbursement rate is then used for all meals served. States receive the cash directly from USDA.

SCOPE

The objectives of our review were to identify: incentives for States' greater use of low cost commodities as a means of providing meals to older Americans, without increasing Federal expenditures; and barriers to States' use of commodities and

solicit input from States as to how the commodity program could be improved to encourage more use of commodities.

To accomplish our objectives we developed two standardized questionnaires with input from the Central Office staffs of AoA and USDA, and the Nutrition Program Director for the Massachusetts Executive Office of Elder Affairs. We mailed the standardized questionnaires to all of the 10 States that use commodities, and to all of the 8 States that had stopped using commodities since 1990.

We conducted telephone interviews, as needed, with States to obtain clarification of and elaboration on their responses to the mailed questionnaire. However, we did not verify the information as we had no reason to doubt the validity or completeness of the responses. We concluded that the State officials responded freely, and with sufficient candor, and that there is sufficient corroboration between their statements to validate the issues raised as not being isolated or insignificant.

We analyzed the data in each of the responses to identify the barriers that are preventing expanded use of commodities, whether the barriers are at the State or Federal level and the possible solutions to overcome the barriers.

The States included in the review were: Alaska, Arizona, Colorado, Connecticut, Delaware, Florida, Indiana, Iowa, Louisiana, Massachusetts, Montana, Nevada, Oklahoma, Rhode Island, South Dakota, Utah, Virginia, and Wyoming.

This review was performed in accordance with generally accepted government auditing standards. We did not make an assessment of the internal controls in the States, AoA or USDA as such an assessment was not necessary to satisfy the audit objectives. Work was performed between September 1993 and September 1994 at the Region I Office of Audit Services. We discussed certain aspects of the program operations with Central and Region I Offices of the Administration on Aging, the Commonwealth of Massachusetts Executive Office of Elder Affairs, and Central and Region I Offices of USDA. We obtained AoA's and USDA's comments concerning the findings and recommendations and have included them in appropriate sections of the report.

FINDINGS

The 18 States we reviewed generally agree there are opportunities to provide more meals to older Americans, without increasing Federal expenditures, by using more USDA commodities. The USDA commodities are considered a better value than cash because, as Connecticut responded, *During FY'93...we received commodities worth \$66,000 more than we paid. As a result, we were able to serve 22,000 additional meals....* Colorado also noted *Bonus foods reduce the raw food costs and enables the project to serve more meals....Approximately 29,000 additional meals were served state wide using bonus commodities.* The other States' also noted the value of commodities.

The barriers can be overcome by:

- ▶ better communications and working relationships with SDAs which handle USDA commodities;
- ▶ assuring a better variety of bonus commodities; and
- ▶ improving dependability, quality, and packaging of commodities.

1. BETTER COMMUNICATION AND WORKING RELATIONSHIPS WITH SDAs

The States generally responded that good communications and working relationships with the SDA to identify and respond to nutrition needs were critical to ensuring the commodity program runs efficiently and cost effectively. The SDA is usually an independent State Agency that receives, warehouses, and distributes the commodities to recipient agencies including NPE and schools. The USDA requires each SDA to have an Advisory Council to address recipient agency concerns. The need for more NPE participation was brought out in the States' responses. Only Oklahoma responded that it was represented on the Council. Other States responded that they were either not aware that the SDA had an Advisory Council or that they were not asked to participate.

The USDA regulations (7 CFR 210.28) concerning the Council composition requirements and responsibilities focus exclusively on the school lunch program. Although NPE are not mentioned, they are not specifically excluded. Under Council composition, the regulations provide that the SDA should make every effort to appoint individuals who represent large urban public schools, small rural public schools, parent teacher organizations, students from junior or senior high

schools, nutritionists and teachers. Although there is no mention of the NPE program, they are not specifically excluded.

**NPES WANT TO IMPROVE COMMUNICATIONS WITH THE SDA
AND PARTICIPATE ON SDA ADVISORY COUNCILS**

We asked the 18 States to assess the working relationship that they have with the SDA. The nine States that use commodities generally responded that they have a good working relationship with the SDA. Seven of the nine States that stopped using commodities generally indicated that they did not have a good working relationship with the SDA. Utah responded that although it had not used commodities since 1988, it noted that better communication between all parties resulted in their return to using commodities. Other States responded that better communication within the entire commodity network would help to expand usage of commodities. We also asked the States whether representation on the SDA's advisory council could help resolve problems and lead to an increase in commodity utilization. Only Oklahoma responded that it was represented on the Council. The other 17 States generally responded that they would like to participate on the SDA's advisory council, but, were either not aware that the SDA had an advisory council or that they were not asked to participate. The following State comments noting commodity usage illustrate the importance of good communications with the SDA, and the willingness of States' NPE to participate on the Council.

Oklahoma - 61 Percent Commodities - *"According to [the] SDA 'NPE representation on the Council is vital'....It is only a clear understanding of inventory, ordering, production sheets, menus, etc. that enables success in using commodity products."*

Nevada - 32 Percent Commodities - Nevada does not participate on the Council, but would if asked to. *"The [SDA] communicates more frequently with participants of the National School Lunch Program because of the mandatory federal regulation (7 CFR 210.28) to have an established 'Commodity Advisory Council' composed of representatives which participate in the Program in the State. Recently, USDA guidelines have suggested that states invite other program agencies to also participate in the Council. This would increase the working relationship for all program users of USDA foods."*

Alaska - 20 Percent Commodities - *"Improved communication in the form of an SDA anxious to enroll more NPE's would probably increase the number of NPE's participation....[We are] not sure the SDA wants NPE programs represented on the state advisory board....[We] didn't know there was/is an advisory board until last year."*

Colorado - 25 Percent Commodities - *"I do not feel we would have any problems if [there] had been representation on the Advisory Board, and they had received the notices....The NPE members were not notified of the meetings."*

NPE WANT ALTERNATIVES TO SDA TO IMPROVE EFFICIENCY AND REDUCE COSTS

We asked the 18 States to assess the quality of service that the SDA provides to the NPE. Six States that use commodities generally agreed that the SDA provides an acceptable level of service. Two other States responded that commodity usage would increase if an alternative to the SDA existed. One State responded that it had negotiated an agreement to use a commercial food distributor rather than the SDA and reduced its distribution costs by 4 percent as a result. In addition, the State noted that the change enabled them to institute weekly deliveries which eliminated storage problems that had previously been experienced. The nine States that do not use commodities generally responded that they had no comments concerning the SDA service. The following comments note why States want to have an alternative to the existing SDAs distribution program.

Connecticut - 34 Percent Commodities - *"We feel trapped by having to accept a Statewide distribution program that has been costly and inefficient. A change in Federal regulations requiring state elderly nutrition programs specifically to contract, separately if need be, for the most efficient and low cost means of storing and distributing commodities, would be helpful....A better approach...would be for our Department or a consortium of Area Agencies on Aging to have the option of bypassing the SDA to contract directly for instate storage and delivery."*

Rhode Island - 3 Percent Commodities - *"Most nutrition projects would entertain the idea of using some commodity items if an alternative system was utilized other than the present State Warehouse System."* If State officials maintain more detailed and frequent lines of communication between all parties, it would help to expand usage of commodities. *"A Memorandum of Understanding between the SDA and the State Agency would be advantageous."*

Massachusetts - 29 Percent Commodities - In FY 1990, the Executive Office of Elder Affairs negotiated an agreement with the State Department of Education to allow the NPE to use a commercial food distributor instead of the SDA. Under the agreement, the Department of Education still places all commodity orders with USDA and reports to the USDA on the disposition of all program commodities. The purpose of this pilot program was to demonstrate the effectiveness of using a commercial distributor as a substitute to the SDA to receive, warehouse, and distribute commodities to the States NPE. Initial results encouraged statewide expansion of this initiative in FY 1990. *"[We] began to use a commercial food distributor for reception, storage and distribution of USDA foods in FY 90. Under the old system, in which another State Agency acted as the distributing agency...distribution costs for commodity foods were 9% plus transportation costs of 4 to 5%. By employing a commercial distributor, costs were lowered to 10%....As a result, [NPE] no longer had to fit into the schedule or policies of another organization. Weekly delivery and monthly inventory systems were instituted, eliminating storage problems that had previously been experienced by some sites...."*

USDA COMMENTS

The USDA indicated that States which charge a distribution fee and have State-run warehousing and/or distribution systems are required by section 1773 of P.L. 101-624 to conduct a formal cost comparison between these systems and commercial systems and convert to the latter if they cost less. Decisions regarding which agencies within a State administer Federal commodity distribution programs and how they contract to provide program services are the prerogative of State government.

2. ASSURING A BETTER VARIETY OF BONUS COMMODITIES

There is a category of commodities called bonus that is available to an SDA. Bonus commodities are made available only to AAA and States opting to receive at least 20 percent of their entitlement in commodities. These bonus commodities are not charged against entitlement.

Bonus commodities include: cheese, butter, rice, honey, nonfat dry milk, cherries, ground beef, canned beef, raisins, prunes, apple products, figs, and flour within certain limitations. These bonus items are not available as "free" unless the NPE ordered enough regular commodities to account for 20 percent of its entitlement.

The 18 States generally responded that bonus commodities really make it worthwhile to participate in the commodity program. Bonus commodities are not counted against entitlement and, as Colorado responded, *"Bonus foods reduce the raw food costs and enables the project to serve more meals....Approximately 29,000 additional meals were served state wide using bonus commodities."* Nine States acknowledged that bonus commodities are the main reason they continue using commodities. However, four States that stopped using commodities reported that the overall commodity program lost its attractiveness and cost advantage when the variety of bonus items diminished. These States also responded that more variety in bonus commodities would influence their return to using commodities. Indiana noted that, *"If bonus products were made available to the degree it was in 1988 and 1989 or other enticements which would allow for expansion of the number of meals, the Bureau would not hesitate to revert back to commodities."*

BONUS COMMODITIES HELP STRETCH FOOD DOLLARS

We asked the 18 States to assess the advantages of using commodities and how bonus commodities stretch food dollars. The nine States that use commodities indicated that the option to use bonus commodities was one of the main reasons they elected to continue using commodities. The nine States agree that bonus commodities provide great savings and allow them to provide more meals at no additional cost. The following State comments noting bonus foods illustrate the importance of bonus commodities helping to stretch food dollars and to encourage more participation in the commodities program.

Colorado - 25 Percent Commodities - *"There are greater saving[s] in the rural areas than in the metropolitan areas of the state....Bonus foods reduce the raw food costs and enables the project to serve more meals....Approximately 29,000 additional meals were served state wide using bonus commodities."*

Massachusetts - 29 Percent Commodities - *"On the average, USDA commodity foods are 8-12% lower in cost than the open market....we save approximately \$150,000 per year....With bonus items...there is another stretch of the food dollars."*

Oklahoma - 61 Percent Commodities - *"All [NPE] mentioned that they used bonus commodities when available. Since these bonus commodities are 'free'...their use prevents the project from spending time in the purchase of goods that may come at a higher price."*

Delaware - 23 Percent Commodities - *Delaware uses commodities because they reduce raw food costs by about 15 percent and allow "us to be able to purchase higher priced food products from outside sources because we can save on the commodities....The USDA value of the bonus foods was \$27,711.65."*

Connecticut - 34 Percent Commodities - *"...years of experience have verified to individual [NPE] the advantages [of using commodities]....[There] is good quality for the price. For example, during FY'92, we received \$42,680 worth of bonus commodities plus an undocumented savings of other less expensive USDA commodities compared with similar quality foods purchased commercially. During FY'93, we received \$48,011 worth of bonus commodities. ...[and] we received commodities worth \$66,000 more than we paid. As a result we were able to serve approximately 22,000 additional meals...."*

Connecticut also responded that it would like to see *"...An option allowing some [NPE] to opt for less than 20% of their USDA entitlement as commodities while allowing others to take more than 20% and qualify for bonus commodities."*

Montana - 45 Percent Commodities - *"[Commodities and bonus items] help maintain and expand our meals programs for the elderly....Commodity usage would increase if the majority of items surveyed for were purchased."*

Alaska - 20 Percent Commodities - *"The USDA Commodities Program is a great resource for quality foods for a good price. In this era of budget cutbacks, it is reassuring to know that there is an area in which agencies could save money while providing a better service to clients....[Bonus commodities] are what really make it worth while to participate in the commodity program."*

Alaska also responded *"...[by ordering] at least 20% of our total USDA budget to get commodities, and only a few programs participate to reach this level, why can't all of the programs order bonus commodities - even if they have not ordered"*

regular commodities. After they have seen the quality of the products, it would certainly encourage them to participate in the full program the next year."

Nevada - 32 Percent Commodities - *"Many of the rural counties...elect as much as 50-75% of their USDA entitlement in the form of commodities because of the increased cost to them to purchase a similar product in a rural area....Bonus commodities increase the level of federal assistance to program recipient agencies which lowers their overall food service cost."* Nevada also responded that in FY 1993, NPE received bonus commodities valued at \$33,031.

Iowa - 22 Percent Commodities - *"If the 20% minimum...could be reduced to 10% or eliminated entirely this would encourage...to elect commodities provided desirable bonus choices were offered....The NPE would request that we be offered the same bonus items as the schools."*

MORE VARIETY OF BONUS COMMODITIES WOULD ENCOURAGE MORE PARTICIPATION

We also asked the States whether the selection and variety problems exist in the bonus commodities program. Four States that do not use commodities reported that the overall commodity program lost its attractiveness and cost advantage when premium bonus items were no longer available and the variety of bonus items diminished. The following State comments illustrate the importance of bonus commodities in helping to stretch food dollars and encouraging more participation in the commodities program.

Indiana - No Commodities - *"When this agency considered utilization of part commodities, it was not from a cost savings but rather by qualifying for the bonus commodities so we could ultimately serve more meals....Utilizing bonus product resulted in an expansion of meals and eliminating a portion of our waiting list....If bonus product were made available to the degree it was in 1988 and 1989 or other enticements which would allow for expansion of the number of meals, the Bureau would not hesitate to revert back to commodities....The factor affecting the decision to select cash is purely a dollar and [cents] factor. Without bonus product it was not cost effective."*

Arizona - No Commodities - *"The USDA Commodity Program was attractive to the Senior Nutrition Programs because they were able to provide high quality basic and staple food items and at the same time have money to purchase a greater variety of extra food items.... The availability of bonus items was one of the most attractive points in participation in the USDA Commodity program. The bonus items were additional foods that could be used in menu planning so that money was available to buy extra things that otherwise could not have been included in the budget."*

Arizona also responded *"...one of the largest provider[s]...experienced a cost saving per meal of \$.31 over a number of years....Had this particular provider*

continued in the program, this cost saving could have resulted in a saving of \$41,829....The program lost its attractiveness when premium bonus items (ground beef, frozen pork, chicken nuggets, etc.) decreased in availability or were no longer available."

South Dakota - No Commodities - *"Factors that would influence our state to resume use of commodities:...Better selection of foods, especially bonus....Bonus foods helped decrease the overall cost of commodity foods, storage and shipping. Without them there was little or no cost savings."*

Wyoming - No Commodities - *"Bonus foods did help to decrease the overall cost of commodity foods, but items were very limited and did not provide much variety."*

USDA COMMENTS

Notwithstanding the States comments on the quantity and variety of bonus commodities, USDA does not believe that bonus commodities are a critical factor in a State's decision to use commodities. Regarding the quantity of bonus commodities made available specifically to NPE, USDA offers all bonus commodities to States, and makes it clear that both schools and NPE are eligible outlets. However, SDAs decide the quantity and type of bonus commodities that will be offered to NPE. The USDA may identify the type of outlet that should be considered the "primary" recipient of a specific bonus commodity, but SDAs make the final decisions.

The FNS and Congress have undertaken a number of initiatives in an effort to encourage and increase commodity usage in NPE. Among the initiatives tried were:

- The 1990 Farm Bill which mandated that a pilot commodity processing program for NPE be conducted in FY 1992 and FY 1993 in no more than three States to determine whether States/AAAs would be more inclined to accept entitlements in the form of commodities, rather than in cash, if processed donated foods were more readily available. No States have applied for this program.
- The FNS, in FY 1988, initiated a project which allowed AAAs to elect their own cash and/or commodity entitlement levels, independent of State elections. This pilot project was started in an effort to increase commodity usage and to allow AAAs flexibility in planning and operating their elderly nutrition services. The pilot project became a permanent option in FY 1990. The percentage of entitlement taken in commodities did not increase over the previous year, nor was there any sustained increase in subsequent years.

The USDA feels that lowering the entitlement commodity percentage necessary to qualify for bonus commodities, would not likely have the desired result because the total volume of commodities States receive would, in many instances, not justify the extra administrative work.

3. IMPROVING DEPENDABILITY, QUALITY, AND PACKAGING OF COMMODITIES

We also asked the States for their input on how to improve the commodity program to facilitate more use of commodities. The concerns expressed were that the commodity program does not assure them of having the right product, in the right place, at the right time. The responses focused on three issues: **dependability, quality, and packaging**. Since these issues are covered under the Council's responsibilities, the States' comments in these areas clearly reinforce the need for NPE to be represented on the Council.

The USDA regulations on Council responsibilities specify that the Council will give the SDA information concerning the most desired foods, the bonus items to order, and the preferred package size. The Council advises the SDA on distribution systems, delivery schedules, and program operations and also makes recommendations for USDA regarding national purchasing practices, changes in donated food specifications, and packaging improvements. This information is to be obtained in an annual survey of school food authorities within the State, however, there is no mention of the NPE program.

Dependability

We asked the 18 States to assess how the commodity program could improve regarding the use of more commodities. The States responded that barriers exist to using more commodities. One of these barriers involves the concern of dependability. The concerns that six States expressed about **dependability** of the program were: if we order it, are we going to get it, unlike products are usually substituted (flour for beef, turkeys for pineapple), and let us know in a more timely manner when products are not going to be available. The following State comments illustrate the importance of dependability and how it impacts on their decision to use commodities.

Massachusetts - 29 Percent Commodities - "If the USDA decides to purchase the product on a different schedule than the survey offers, they need to replace it with the same food category. For example, if we [order] six truckloads of pineapple chunks...and USDA decided not to purchase any pineapple...we need to replace the pineapples with another fruit...instead of using the allowances for the purchase of truckloads of turkeys."

Connecticut - 34 Percent Commodities - "The most important points to consider in expanding our USDA commodity usage, or whether or not to use USDA

commodities at all, include the following:...An assurance that commodities we preorder will be available at predetermined and regular intervals throughout the year.....Mid-year shortages, due to failed USDA shipments, are extremely costly administratively and result in the inability of some [NPE] to use up their entitlements by the end of the year."

Montana - 45 Percent Commodities - *"What seems to be an issue is 'if an item is [ordered], are we going to get it?' And, 'if it is purchased, when will we get it?'"*

Alaska - 20 Percent Commodities - *"Shipment dates should be more accurate. When items are not received on time, it adds pressure to food service personnel to make adjustments. Cancellations should be made known quickly to avoid problems in ordering necessary replacements. ...when items... are canceled, we have to back pedal for filling spaces in our menus. ...when a meat item was not available, programs were told they had to accept a substitute of flour or a vegetable or lose the money. You can imagine how much flour it takes to make up for a meat order."*

Virginia - No Commodities - *"If a specific food is requested/ordered, but does not become available during the fiscal year, and if you are unable to accept other foods as a substitute, please remember you will forfeit the monetary benefit of the originally requested commodity."* Virginia responded that USDA's policy of not permitting a change in entitlement when there are shortages discouraged the use of commodities.

Florida - No Commodities - *"USDA's current policy of not replacing unreceived commodity foods with cash-in-lieu of commodities makes the use of commodity foods punitive for many NPE....Most of them feel that in order to assure that they receive 100 percent of their USDA entitlement, they must go with 100 percent cash-in-lieu of commodities."*

USDA COMMENTS

There are times when a commodity either is not purchased as planned or the volume purchased is less than desired. When a purchase cannot be made, USDA notifies its regional offices immediately. The USDA then offers a substitute commodity from within the same food group. The USDA does not substitute different types of commodities, such as flour for beef, because such dissimilar foods are funded from two different sources. The substitute commodity has to be approved by the State prior to purchase. The USDA also indicated that States are always offered sufficient quantities of commodities to ensure that they meet the level of support they have elected in the form of commodities.

Regarding late shipments, USDA has devoted considerable resources to the late-shipment problem. To further improve shipment performance, USDA asked States

to contact their respective regional office immediately to advise them of any late shipments.

Quality

We asked the 18 States to assess how the commodity program could improve regarding the use of more commodities. The States responded that barriers exist to using more commodities. One of these barriers involves the **quality** of commodities. The concerns that six States expressed about quality were directed at lowering the fat content of meats and poultry, lowering sodium content of both meat and packed vegetable commodities, and packing fruits in natural juice with no sugar added. The following State comments illustrate the importance of quality and how it impacts on their decision to use commodities.

Massachusetts - 29 Percent Commodities - *"...we would like the following standards to be followed: Sodium content lower than 500 mg per portion. Fat content lower than 30% of the calories. All canned or frozen fruit product packed in its own juice. All juice items have no sugar added and enriched with Vitamin C. More frozen vegetables, less canned vegetables."*

Delaware - 23 Percent Commodities - *"We would use more commodities if:...Canned fruits were packed in natural juice rather than in syrup....Ground beef was less fatty and frozen in five pound rolls....Cheese...was low salt, low fat."*

Oklahoma - 61 Percent Commodities - *"Fruits should be packed in its own juices, with no sugar added - Vegetables packed without added salt."*

Colorado - 25 Percent Commodities - *"Projects would like leaner ground beef, roast beef, stew meat and more ground lean turkey. The boned rolled and [tied] turkey roasts and the turkey roll are too high in sodium."*

Alaska - 20 Percent Commodities - *"Canned vegetables which are low in sodium can be better served to the seniors in the foods that are prepared for them. This includes low sodium tomato and tomato products."*

Nevada - 32 Percent Commodities - *"The canned beef and chicken contains too much fat."*

USDA COMMENTS

The USDA's goal for the commodity program is to provide an appealing array of healthy commodities, with special emphasis on controlling levels of fat, calories from fat, sodium, and sugar. The USDA is currently involved in a review of specifications for all commodities purchased by USDA for domestic consumption to determine how the overall commodity offering can be made more healthful. Over the past 10 years, USDA has made numerous commodity improvements including: (1) packing fruits in natural juices, (2) reducing fat content in ground beef patties to 10 percent, and (3) eliminating the use of tropical oils in peanut butter and other products containing oil. The USDA has also intensified activity in the area of new product development, again, with the objective of reducing fat and sodium levels. Products recently made available include frozen ground turkey, turkey sausage, and turkey burgers with an average fat content of 11 percent and low-fat, low-skin, all meat chicken nuggets and patties. A reduced-fat cheddar cheese with a fat content that is 40 percent lower than regular cheese was tested and, given the favorable feedback, this product should soon be more widely available. The USDA is also testing low-fat mozzarella cheeses with 7 and 10 percent fat, as compared to between 20 and 25 percent in regular mozzarella.

Packaging

We asked the 18 States to assess how the commodity program could improve regarding the use of more commodities. Twelve States responded that one of the barriers to using more commodities involves the packaging of commodities. The concerns expressed about packaging focused on the need for smaller packages for smaller projects. The following State comments illustrate the importance of packaging and how it impacts on their decision to use commodities.

Montana - 45 Percent Commodities - *"The one problem, especially for smaller projects, is the size of the packaging. The packaging could be smaller."*

Connecticut - 34 Percent Commodities - *"Large bulk frozen items are inconvenient for smaller kitchens. They are sometimes inconvenient for larger kitchens if a package is incompletely used in a day; since the unused portion must be kept safe for a later time. In addition to frozen items, bulk cheese and raisins have been a problem. A choice of two sizes (such as 10# and 30#) would eliminate these problems, provided that shipments could include both sizes."*

Massachusetts - 29 Percent Commodities - *"The way of the packaging is very important.... We have made the suggestion to USDA for years, but there is still no change in the packaging. As a result, [we] started a group purchasing program with [a company], [because] they guaranteed [the right packaging].... If the product is not packed under the institution (quantity) code, it is not cost effective (labor) to use it. For example, if the canned salmon is packed in a #5 can [(14.75 oz)], ...if a kitchen serves 2,000 meals a day, they need to open 400 cans."*

Oklahoma - 61 Percent Commodities - *"The most common answer to the Question 'What specific change would make commodity usage easier?' is 'A Change in Packaging.' ...the frozen egg products would be more useful if packaged 24 to a carton rather than 48....Providers stated they would prefer getting tomatoes canned whole or diced instead of made into tomato sauce.. Staff stated that the #10 cans of tomato paste [are too big and the product] would be more useful if the cans were smaller....The packaging of certain commodity products does not make their usage easy but the most persistent and trained of cooks can think of something. There are a few exceptions to this for smaller cooking sites. Chicken is a popular menu item....For small cooking sites however the thawing of the chicken is a problem as the frozen chicken may be packed in too great a quantity. The re-packaging of these products would not always increase the number of meals - it would however cut down on waste. ...the idea of a liquid or frozen meal is excellent. Currently some NPE's in Oklahoma are experimenting with home delivered meal routes that are very rural and isolated....Liquid meals or frozen meals would ensure that the frailest and/or the most isolated older people could be served."*

Nevada - 32 Percent Commodities - *"...it would be helpful if USDA offered frozen meat and poultry items to states throughout the year versus all at once....Agencies would probably accept a higher percentage of their food allotment if frozen meats were available on a more frequent basis."*

Delaware - 23 Percent Commodities - *"Smaller packages help when prepare meals at on-site kitchens...The program could [also] be expanded by providing more pre-prepared food items such as sauces, assorted cake mix, prebaked pies, and precooked meats....Increase the number of shelf stable items for our use. Such items as: Canned Fruit Juices, Canned Tomatoes, Canned Tomato Puree, Elbow Macaroni, Canned Tuna, Sweet potatoes, Canned Vegetables, Oil..."*

Colorado - 25 Percent Commodities - *"The biggest saving would be a contract for Frozen Home Delivered Meals...that would be negotiated by USDA using all commodities. This would be used nationally because there are only two providers of these meals. [One] project uses over [250,000] frozen meals a year."*

Alaska - 20 Percent Commodities - *"If somehow commodities could be in smaller packs within a larger box - such as 5 five pound packages of raisins instead of one 25# pack - then 20# could stay in storage while 5# are used in the kitchen....If the cook only has one cabinet to store sugar, flour and other like items, she/he is not going to be able to take up the space with a 25# bag....The cook will prefer to shop for 10# bags in a local store. That's how smaller packaging can help our projects....Items which are not utilized as quickly as others should be purchased in smaller containers (raisins, refried beans and tomato paste in #10 cans and rolled oats in 50# bags)."*

Virginia - No Commodities - *"For large volume preparation, the larger packaging is desirable, for storage and preparation. Small meal programs need smaller packaging for preparation and storage, otherwise there is waste."*

Indiana - No Commodities - *"This [packaging] was especially a problem with 50 pound blocks of ground beef and product which was portioned to meet the School lunch guidelines."*

Arizona - No Commodities - *"Large quantity packages are acceptable for use and storage in facilities that serve large numbers of meals daily. Small operations, 50 meals or less, find it difficult to use and store large quantity items. Smaller packaging would be desirable for these operations having limited storage and freezer space."*

Utah - No Commodities - *The "USDA could also provide an option within the entitlement NPE program of a liquid supplemental meal or a frozen/shelf life ready to eat meal [both could be made with USDA commodity foods]...to enhance the nutrient density of older participants found to be at nutritional risk."*

USDA COMMENTS

The NPE and school lunch purchases and shipments are combined. Since NPE makes up a small portion of the purchase, it would not be cost-effective to contract for separate packaging for NPE. However, when feasible, USDA tries to offer pack sizes that are desirable to NPE. For example, in 1988 USDA offered quartered chicken in addition to the normal eight-piece cuts because chicken in this form is more readily usable by NPE sites. In addition, USDA is exploring the possibility of combining NPE purchases with those for one of our household distribution programs. This would provide NPE operators with a choice between institutional and household pack sizes for some of the more widely used commodities.

ACTIONS TO REMOVE BARRIERS THAT IMPEDE STATES FROM USING MORE COMMODITIES

The States' responses as to how the program could be improved indicate that the NPE need a mechanism for expressing their concerns and a resolution process to ensure that solutions will be forthcoming.

We recognize that AoA does not have direct authority over how the commodity program is administered. However, we believe that in its leadership role, the AoA could become more involved with States and USDA in addressing the barriers to more use of commodities. To improve its leadership role, we believe that AoA should work closely with USDA to develop a strategy to address the following three barriers that impede the States ability to use commodities.

- ▶ Better communications and working relationships with USDA commodity SDAs.
- ▶ Assuring a better variety of bonus commodities.
- ▶ Improving dependability, quality, and packaging of commodities.

RECOMMENDATIONS

We are recommending that AoA work closely with USDA to:

- 1. Expand the usage of commodities. The AoA should pursue a Memorandum of Understanding with USDA concerning the NPEs participation on the SDA Advisory Council and for those States that cannot work out their differences with SDA provide an option for States to use alternatives to the SDA.**
- 2. Emphasize the importance that bonus commodities have concerning the States' decisions to either return to or expand their usage of commodities. They should also work with the SDAs to ensure an equitable distribution of bonus commodities between the NPEs and schools.**
- 3. The AoA should also develop and communicate a uniform message to USDA on the concerns of dependability, quality and packaging of commodities.**

AOA COMMENTS

In response to our draft report, AoA agreed with our recommendation to expand the usage of commodities. The AoA stated "... promoting commodity usage may better expand nutrition services at a lower cost than other alternatives."

Regarding our recommendation to emphasize the importance of bonus commodities, the AoA stated it "...believes that developing innovative ways, such as emphasizing bonus commodities, to expand nutrition services at a limited cost is essential." In addressing these two recommendations, the AoA also stated that AoA and USDA staff "...will address policy and programmatic issues of their respective programs through regular meetings and improved communication. The resolution of these issues will be addressed through Memoranda of Understanding regarding policy issues and Joint Memoranda regarding programmatic issues." The AoA also stated agreement with our recommendation to develop and communicate a uniform message to USDA on the concerns of dependability, quality and

packaging of commodities. The AoA stated it "...believes that this recommendation can be addressed by: using data obtained from the national evaluation of the Elderly Nutrition Program... convening with USDA a roundtable of commodity users and non-users to identify solutions to commodity usage barriers; using input from the Administration on Aging National Nutrition Advisory Council; and recommending that the issues be addressed by the USDA National Advisory Council on Commodity Distribution".

OAS RESPONSE - AoA

Since AoA generally agreed with our recommendations we have no comments to the AoA response.

USDA COMMENTS

The USDA agrees that commodities would enable States to increase their meal service without increasing expenditures. In this era of fiscal restraint, State NPE may be willing to use more commodities. Therefore, a renewed focus on this issue at the Federal level is thoroughly appropriate at this time. However, USDA believes that bonus commodities are not a critical factor in States' decisions to use commodities. The USDA believes that the greatest potential for increasing commodity use in the NPE lies in promotional efforts and improved communication, rather than in changes to program operations and requirements. They stated that improved communications with AoA over the past two years have laid the ground work for a successful cooperative effort to promote commodity use.

OAS RESPONSE - USDA

We believe that the USDA should address the States' concerns about the quantity and variety of bonus commodities. An objective of our review was to identify issues that States perceived as barriers to using more commodities. Nine States specifically stated that bonus commodities are the main reason they continue using commodities and four States that stopped using commodities reported that the overall commodity program lost its attractiveness when the variety of bonus items diminished. We believe these responses indicate that bonus commodities are a factor in a States decision to use commodities.

APPENDICES



DEPARTMENT OF HEALTH & HUMAN SERVICES

APPENDIX I

IG	_____
SAIG	_____
PDIG	_____
DIG-AS	_____
DIG-EI	_____
DIG-GI	_____
AIG-CFAA	_____
AIG-MP	_____
OGC/IG	_____
EXSEC	_____
DATE SENT	3/31

Office of the Secretary
Administration on Aging
Washington, D.C. 20201

RECEIVED

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MAR 30 1995

OFFICE OF INSPECTOR GENERAL

To: ^{GENERAL}
June Gibbs Brown
Inspector General

From: Assistant Secretary for Aging

Subject: Administration on Aging Nutrition Program for the
Elderly Use of United States Department of Agriculture
Commodities (A-01-93-02510)

Thank you for the opportunity to review and comment on the report entitled Administration on Aging Nutrition Program for the Elderly Use of United States Department of Agriculture Commodities (A-01-93-02510).

The Administration on Aging (AoA) agrees that promoting commodity usage may better expand nutrition services at a lower cost than some other alternatives. Given the limited financial resources of the Elderly Nutrition Program (ENP) as well as the limited growth in increased financial support from many sources, the AoA believes that developing innovative ways, such as emphasizing bonus commodities, to expand nutrition services at a limited cost is essential.

As the AoA awaits the resolution of the recent Congressional proposals to alter nutrition programs affecting the elderly, the AoA and the United States Department of Agriculture (USDA) Food and Consumer Services, Special Nutrition Programs staff will address policy and programmatic issues of their respective programs through regular meetings and improved communication. The resolution of these issues will be addressed through Memoranda of Understanding regarding policy issues and Joint Memoranda regarding programmatic issues. Depending on the resolution of Congressional proposals affecting nutrition programs for the elderly, the AoA believes that Recommendations One and Two of this report can be addressed in this same manner at a later date.

The AoA agrees with Recommendation Three and plans to develop and communicate a uniform message to USDA on the concerns of dependability, quality and packaging of commodities. The AoA believes that this recommendation can be addressed by: using data obtained from the national evaluation of the Elderly Nutrition Program being conducted by Mathematica Policy Research, Inc. which will be available in August 1995; convening with USDA a roundtable of commodity users and non-users to identify

solutions to commodity usage barriers; using input from the Administration on Aging National Nutrition Advisory Council; and recommending that the issues be addressed by the USDA National Advisory Council on Commodity Distribution.

I am pleased that staff from the AoA and the Office of the Inspector General were able to cooperatively work through differences and come to common understanding.

If you should have any questions, please contact me or have your staff contact Carol Cracy, Director, Division of Program, Management, and Analysis, Office of State and Community Programs at (202) 619-2617.


Fernando M. Torres-Gil



United States
Department of
Agriculture

Food and
Nutrition
Service

APPENDIX II

3101 Park Center Drive
Alexandria, VA 22302

Mr. Tony Rubbo
Audit Manager
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
Room 5759 Cohen Building
330 Independence Avenue, SW
Washington, D.C. 20201

SEP 1 1994

Dear Mr Rubbo:

This is in reference to your audit entitled "Administration on Aging Nutrition Program for the Elderly: Use of USDA Commodities." Enclosed are our comments on your working draft audit report. For easy reference, these comments are numbered, and the corresponding numbers marked on the enclosed copy of the draft report relate the comments to specific sections of the report.

This audit and discussions during our meeting on August 3, 1994, make it clear that the Administration on Aging and the Food Nutrition Service (FNS) are both concerned about the limited use of commodities in the Nutrition Program for the Elderly (NPE). As you have indicated, greater commodity usage would enable States to increase their meal service without increases in State or Federal expenditures. In this era of fiscal restraint, we believe that States and Area Agencies on Aging (AAAs) may be willing to reconsider their positions on commodities. Therefore, a renewed focus on this issue at the Federal level is thoroughly appropriate at this time. As we agreed at the conclusion of our August 3 meeting, the greatest potential for increasing commodity use in NPE lies in promotional efforts and improved communications, rather than in changes to program operations and requirements. We believe that improved communications between AoA and FNS over the past 2 years have laid the ground work for a successful cooperative effort to promote commodity use.

We hope the enclosed comments provide useful insight into NPE operations and that they prove helpful in redrafting the report. We are particularly concerned that, although this was your second audit on the same subject, no effort was made to determine what actions the Department of Agriculture (USDA) had taken to increase commodity use since the first audit. Our comments include a description of these efforts, which we trust will be included in your final report. The very limited positive State and AAA response to these past efforts should temper our expectations for the future and help us to formulate new strategies. The comments also provide information which we believe will affect your conclusions. For example, the

recommendation that the variety of bonus commodities made available to NPE be increased should perhaps be reconsidered in view of the fact that the purchase of price-support and surplus-removal commodities is dictated by the interaction of legislative mandates and agricultural market conditions. USDA does not exercise the degree of discretion in this process that would be necessary to significantly affect the variety of bonus commodities it purchases.

If at all possible, we would appreciate the opportunity to review the next draft of the report. Should you have any questions regarding the enclosed comments, please contact Phil Cohen or Ursula Key at 703-305-2660.

Sincerely,

SIGNED

RONALD J. VOGEL
Associate Deputy Administrator
Special Nutrition Programs

Enclosures

DHHS NPE Audit Comments

Footnote 1: In FY 1993, USDA distributed 4 percent (\$5.0 million) in commodities and 96 percent (\$145,391,217) in cash.

Footnote 2: The sample of 18 States includes all 10 States currently receiving commodities. This ratio is not representative of the nation as a whole with regard to interest in commodities. Furthermore, given the preestablished objective of the audit, i.e., to find ways to increase the use of commodities in the program, the sample should have drawn more heavily on States which do not currently receive commodities. Much greater gains in commodity use are possible through changes in the behavior of these States than through increases in commodity orders from the small handful of States and scattered Area Agencies on Aging (AAAs) which already use them.

Footnotes 3 & 4:

USDA provided \$150.6 million to State Agencies on Aging during FY 1993. During FY 1993, States served 244.2 million USDA reimbursable meals.

Footnote 5: States earn USDA per-meal reimbursement based on a rate that is established by the Department of Agriculture. This is the highest rate that USDA believes the program appropriation can support throughout the fiscal year. The rate must be reduced if such action proves necessary in order to stay within the appropriation. However, legislation does not permit an increase in the initially established rate during the fiscal year; any funds not expended in reimbursement in FY 94 will be carried over into FY 95.

Footnote 6: This paragraph does not accurately describe the dynamics of USDA commodity acquisition. It should be replaced by the following paragraphs:

FNS develops a preliminary annual purchase plan for all domestic commodity assistance programs. To create a realistic purchase plan, FNS balances market information from AMS and ASCS with entitlements, funds available, commodity ordering trends, and users' preferences. The annual Commodity Acceptability Reports, analyzed by FNS, reflect all programs' commodity preferences. Where flexibility exists and market conditions permit choices, these reports help FNS make purchase decisions. When commodity inventories, harvest forecasts, market prices, and other factors are definite, FNS, AMS, and ASCS develop a final purchase plan. This final plan, approved by the Secretary of Agriculture, includes all commodities intended for purchase and the estimated cost, the planned appropriation account, and the anticipated program outlets for each commodity.

For surplus-removal type commodities, which are purchased by AMS, FNS surveys State Agencies on the quantities, form and pack size and shipping periods desired. FNS authorizes AMS to make purchases and works closely with AMS to procure commodities in accordance with States' requests. After commodities are purchased, FNS allocates purchases to States on a pro-rata or approved-food-package basis. Allocations of commodities take into consideration State entitlements or participation, depending on the program.

For price-support type commodities, which are purchased by ASCS, FNS monitors ordering and purchases to ensure USDA meets program entitlements and spends available funds. Occasionally commodity "caps" are established to limit the amount of commodities a State may order for a particular program. In those cases, FNS must also monitor ordering at the cap level.

Footnote 7: The Department does not provide categories of bonus commodities called "Regular" and "Premium." The distinction between bonus commodities that are unconditionally available to States and bonus commodities which States can access only if they take 20 percent or more of their reimbursement support in commodities has not existed in the program for a number of years. Bonus commodities are made available only to AAAs and States opting to receive at least 20 percent of their entitlement in commodities. These bonus commodities are not charged against entitlement.

Footnote 8: ". . .there is an obstacle to State NPE representation on the SDA Advisory Council. . ." (Page 4). " The AOA should consider forming a nationwide State NPE Advisory Council in order to develop and communicate a uniform message on the concerns of dependability, quality, and packaging of commodities" (Page 13).

Law places these State Councils under the State Departments of Education, and a State Department of Education may or may not also be the State Distributing agency. In any event, "SDA Advisory Council" is a misnomer. NPE representatives are not required by law to be on State Advisory Councils. Through an October 19, 1993, memorandum, FDD transmitted guidance to its regional offices entitled "A Guide For State Food Distribution Advisory Councils." The Guide was developed in response to a recommendation made by the National Advisory Council on Commodity Distribution (which does by law include an NPE representative). The national council recognized that many State councils do not adequately emphasize food distribution issues or appropriately involve State food distribution officials in council deliberations. As comments made by Nevada (p. 5) acknowledge, the Guide addressed this problem.

The development of a truly representative NPE national council interested in commodity issues would be virtually impossible

because only a few States, and isolated AAAs, are currently interested in commodities. If renewed efforts to promote commodity use in NPE prove to be successful, such a council could be formed. However, it would not be feasible to do so now as a means of promoting increased commodity usage. Rather, ensuring that the NPE representative on the National Advisory Council is aware of the issues that need to be presented and discussed at council meetings may be a better short-term option.

Footnote 9: ". . .one State--Massachusetts--obtained a waiver from USDA to be its own subdistributor."

No waiver was issued by USDA. Apparently, through an arrangement negotiated between the State Executive Office of Elder Affairs and the State Department of Education, the latter has a separate commercial warehousing and distribution system. However, the Department of Education still places all commodity orders with USDA and reports to the Department on the disposition of all program commodities.

Footnote 10: "A change in Federal regulations requiring state elderly nutrition programs to contract, separately if need be, for the most efficient and low cost means of storing and distributing commodities, would be helpful. . . ."

For child and elderly nutrition programs, States which charge a distribution fee and have State-run warehousing and/or distribution systems are required by Section 1773 of P.L. 101-624 to conduct a formal cost comparison between these systems and commercial systems, and to convert to the latter if they cost less. Thus legislation already mandates essentially what the State apparently wants. The law does not, however, require separate contracting for NPE. Decisions regarding which agencies within a State administer which Federal commodity distribution programs, and how--within the above legislative parameters--they contract to provide program services are, and should remain, the prerogative of State Government.

Footnote 11: Increase the variety of bonus commodities available:

USDA does not control over the variety of bonus commodities available, nor does it dictate the quantity of bonus commodities available to NPE. The interaction of legislation and market conditions determines what surplus-removal and price-support commodities will be purchased. Regarding the quantity of bonus commodities made available specifically to NPE, FNS offers all bonus commodities to States, and makes it clear that both schools and NPE are eligible outlets. However, State DAs decide the quantity and type of bonus commodities that will be offered to NPE. FNS may identify the type of outlet that should be considered the "primary" recipient of a specific bonus commodity e.g., canned sweet potatoes would be better for NPE than for NSLP, but States make the final decisions.

Footnote 12: "If bonus product were made available to the degree it was in 1988 and 1989 or other enticements which would allow for expansion of the number of meals, the Bureau would not hesitate to revert back to commodities."

Since USDA offered the cash option in 1978, States have preferred cash over commodities. Since 1984, 96 percent of benefits have been provided in cash. That percentage remained unchanged even during the "prime" bonus years (1987-88), strongly suggesting that bonus commodity availability is not a critical factor in States' decision to take cash or commodities.

Additionally, FNS and Congress have undertaken a number of initiatives, none of which is acknowledged in the audit, in an effort to encourage and increase commodity usage in NPE. They include:

- o The 1990 Farm Bill mandated that a pilot commodity processing program for NPE be conducted in FYs 92 and 93 in no more than 3 States in order to determine whether States/AAAs would be more inclined to accept their entitlement in the form of commodities rather than cash if processed donated foods were more readily accessible. While FNS actively solicited volunteers for program participation, not one State applied.

- o In FY 1988, FNS initiated a project which allowed AAAs to elect their own cash and/or commodity entitlement levels, independent of State elections. This pilot project was started in an effort to increase commodity usage and to allow AAAs flexibility in planning and operating their elderly nutrition services. This pilot project became a permanent option in FY 1990. The percentage of entitlement taken in commodities did not increase over the previous year, nor was there any sustained increase in subsequent years.

- o In the late 1980's, AAAs and school food authorities were authorized and encouraged to share full truckloads of commodities so that they could receive direct delivery from the vendors.

- o In the mid 1980's, through a cooperative agreement, the National Association of Nutrition and Aging Services Programs (NANASP) and USDA brought local meal providers, State Commodity Directors, State Office of Aging Directors and food processors together in a series of training workshops and consultations on the commodity program. A comprehensive manual called The Aging Network's Guide to USDA was also issued. This publication outlines the benefits of USDA commodities, as well as how States can participate. Through this project, FNS communicated several important messages about the high quality of commodities, the significant economies that can be achieved using USDA purchasing power, the reductions in sugar, fat, and salt that have been made in USDA commodities, and the food industry's interest in processing commodities into a variety of end-products.

o [See the following footnote for reference to another major USDA initiative to promote commodity use, the reduction--from 50 percent to 20 percent--in the minimum portion of entitlement that States must take in the form of commodities in order to be eligible to receive bonus commodities. This initiative was no more successful than the others in achieving the desired result.]

Footnote 13: Reduce the 20% minimum to make bonus commodities more readily available:

In June 1986, FNS reduced the bonus commodity percentage policy from 50 to 20. This change was followed by a minimal and temporary increase in commodity use. Entitlement commodity election in the year prior to this change was 4 percent; it was also 4 percent in FYs 93 and 94. It should also be noted that the availability of bonus commodities declined significantly beginning in FY 1989 as a percent of the value of entitlement from 6.2 to 2.5 and has fluctuated between only .8 percent and 1.2 ever since. Thus bonus commodities have extremely limited potential to affect States' decisions about commodity usage.

It should also be noted that a certain irreducible administrative responsibility attaches to commodity use, regardless of the volume. Lowering the entitlement commodity percentage necessary to qualify for bonus commodities, especially in view of the diminished supply of bonus commodities, would not likely have the desired result because the total volume of commodities States would receive would in many instances not justify the extra administrative work. Furthermore, it should be noted that commodities charged against entitlement also increase the number of meals that can be served because USDA can almost invariably purchase food at significantly lower prices than AAAs, local meal preparation sites, and food service management companies. Therefore, the combined savings of bonus commodities and entitlement commodities at 20 percent or more of total entitlement would exceed the savings of bonus commodities and any lower level of entitlement commodities. If States and AAAs want to maximize the number of meals they can serve, they will accept more entitlement commodities rather than seeking a reduction in the 20-percent minimum.

Footnote 14: Dependability: "If we order it, are we going to get it, substitutions are not for like products (flour for beef, turkeys for pineapple), and let us know in a more timely manner when products are not going to be available."

While FNS cannot absolutely guarantee that States will always get what they ordered, the overwhelming majority of orders are indeed filled. Again, USDA purchase contracts are awarded based on the results of State surveys. There are times when, for whatever reason, a commodity is not purchased as planned, or when the volume purchased is less than desired. When a purchase cannot be made, HQ-FNS notifies Regional Offices immediately (at the very

latest, 6 weeks prior to the State's expected date of delivery). FNS then routinely offers a substitute commodity. In most cases, FNS tries to offer a commodity within the same food group. FNS does not substitute Group B for Group A (e.g., flour for beef) because such dissimilar foods are funded from two different sources. In any event, prior to purchase, the substitute commodity has to be approved by the State. Regarding late shipments, FNS, the Agricultural Marketing Service (AMS), and the Agricultural Stabilization and Conservation Service (ASCS) have devoted considerable resources to the late-shipment problem. For example, both AMS and ASCS have instituted adjusted shipping schedules to reduce delays. To further improve shipment performance, FNS asked States to contact their respective Regional Office immediately to advise them of any late shipments.

Footnote 15: "USDA's current policy of not replacing unreceived commodity foods with cash-in-lieu of commodities makes the use of commodity foods punitive for many NPEs. . . ."

Again, while there are no guarantees, FNS makes every attempt to purchase commodities ordered by States. If FNS is unable to purchase an ordered commodity, an alternative commodity is usually offered. It should be noted that States are always offered sufficient quantities of commodities to ensure that they meet the level of support they have elected in the form of commodities. States which receive less than their commodity election do so because they have declined a portion of the commodities offered. In such instances, the value of bonus commodities received by the State is counted against its commodity entitlement; thus, States can always expect to receive total commodities and/or cash equal to the product of the number of reimbursable meals claimed and the final per-meal rate for the fiscal year.

Footnote 16: Quality: "The concerns expressed about quality were directed at fat and sodium content and fruits packed in natural juice":

FNS's goal for the commodity program is to provide an appealing array of healthy commodities, with special emphasis on controlling levels of fat, calories from fat, sodium, and sugar. FNS, AMS, and ASCS are currently involved in a cooperative review of specifications for all commodities purchased by USDA for domestic consumption to determine how the overall commodity offering can be made more healthful. Over the past 10 years, FNS has made numerous commodity improvements. A few of the improvements which have been made include:

--Fruits are now packed in natural juices. (The National Advisory Council on Food Distribution has tested water packed fruits and found them unacceptable.)

--In 1979, FNS tested salt-free, water packed vegetables and found them unacceptable to our recipients. Commodities reflect the current commercial market usage of sodium.

--FNS purchases ground beef patties with a fat content of 10 percent.

--FNS lowered the fat level of bulk ground beef from 22 percent to 18 percent. This compares quite favorably with the commercially available product, which averages around 30 percent fat.

--The maximum fat content in canned pork has been lowered from 21 percent to 18 percent.

--FNS has eliminated the use of tropical oils in peanut butter and other products containing oil.

USDA has also intensified activity in the area of new product development, again, with the objective of reducing fat and sodium levels in the commodities it provides:

--Products recently made available include frozen ground turkey, turkey sausage, and turkey burgers with an average fat content of 11 percent, and low-fat, low-skin, all-meat chicken nugget and patties.

--A reduced-fat cheddar cheese with a fat content that is 40 percent lower than regular cheddar was tested in Indiana schools. Given the favorable feedback, this product should soon be more widely available.

--The Department is also testing low-fat mozzarella cheeses with 7 and 10 percent fat, as compared to 20-25 percent in regular mozzarella.

Footnote 17: Packaging: The concerns expressed about packaging varied, but, indicate that there is a need for NPEs to have a vehicle for their concerns to be heard.

NPE and School Lunch purchases and shipments are combined. Since NPE makes up a small portion of the purchase, it would not be cost effective to contract for separate packaging for NPE. However, when feasible, we do try to offer pack sizes that are desirable to NPEs. For example, in 1988 we offered quartered chicken in addition to the normal eight-pieces cuts because chicken in this form is more readily usable by NPE sites. In addition, it should be noted that we are currently exploring the possibility of combining NPE purchases with those for one of our household distribution programs, such as the Food Distribution Program on Indian Reservations or the Commodity Supplemental Food Program. This would provide NPE operators with a choice between institutional and household pack sizes for some of the more widely used commodities. Again, packaging concerns should be

communicated to the NPE representative of National Advisory Council so that they may be discussed/addressed during council meetings.