



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

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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

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SEPTEMBER 18, 1981

B-204783



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The Honorable Don J. Pease
House of Representatives

Dear Mr. Pease:

Subject: Storage Cost Data on CCC-Owned
Dairy Commodities (CED-81-157)

In reponse to your August 28, 1981, request and subsequent discussions with your office, we obtained certain cost data on the federally owned dairy products from the Commodity Credit Corporation. In addition to responding to your specific questions concerning the amount spent to store surplus dairy commodities and the amount lost due to spoilage, this report provides related information on the dairy inventories.

In summary, we found that:

- As of June 30, 1981, the Corporation's dairy inventories consisted of about 518 million pounds of butter, about 486 million pounds of cheese, and about 871 million pounds of nonfat dry milk.
- Nearly three-fourths of the dairy products in storage are less than 1 year old.
- The Government's cost to store dairy products has risen sharply, totaling over \$24 million for the first 9 months of fiscal year 1981. By comparison, storage costs for fiscal years 1977-80, when inventories were at lower levels, averaged about \$11 million annually.
- Relatively small quantities of these products are lost due to spoilage while in storage. However, some loss in quality or product deterioration can occur, and when it does, the products are sold at less than inventory value. Only the nonfat dry milk is sold on a restricted basis (not to be used for human consumption).

PROGRAM ADMINISTRATION AND SCOPE OF REVIEW

The Commodity Credit Corporation is a wholly owned Government corporation which, in addition to its other programs,

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acquires commodities through price support and other programs. The Corporation has no operating personnel; its programs are carried out primarily through the personnel and facilities of the Department of Agriculture's Agricultural Stabilization and Conservation Service. The Service's Kansas City Commodity Office has management responsibilities for the acquisition, handling, storage, and processing of commodities required to carry out the Corporation's program commitments.

We obtained the requested information primarily from the Kansas City Commodity Office in Kansas City, Missouri. We interviewed Federal officials and reviewed various records and reports pertaining to the storage and sale of agricultural commodities. Because of the short completion time, we relied extensively on the Corporation's records.

DAIRY INVENTORIES

Corporation records showed the following inventory of dairy products as of June 30, 1981:

<u>Item</u>	<u>Quantity</u> (pounds)	<u>Value</u>
Butter	518,363,541	\$ 729,768,383
Cheese	485,679,596	696,175,631
Nonfat dry milk	<u>870,633,789</u>	<u>771,138,179</u>
Total	<u>1,874,676,926</u>	<u>\$2,197,082,193</u>

The records also showed the following quantities of the inventory that were in storage (the balance was in transit):

<u>Item</u>	<u>Quantity in storage</u> (pounds)
Butter	459,323,785
Cheese	406,303,588
Nonfat dry milk	<u>616,809,974</u>
Total	<u>1,482,437,347</u>

The age of the inventory in storage is shown in enclosure I.

Although the Corporation's inventories are at high levels, large quantities have been sold recently. For example, 132 million pounds of nonfat dry milk were sold to Mexico in March 1981 for delivery over the next 12 months, 66 million pounds each of butter and nonfat dry milk were sold to Poland in April 1981, and 220 million pounds of butter were sold to New Zealand

in August 1981. On the other hand, the Corporation's purchases for the rest of the year are expected to remain at high levels.

STORAGE AND TRANSPORTATION COSTS

The Corporation spent about \$424 million to store all kinds of federally owned commodities during the approximate 5-year period from fiscal year 1977 through the first 9 months of fiscal year 1981. The portion of storage and handling costs applicable to dairy products during this period was \$69.6 million. Another \$213 million was spent for transportation during the period, of which \$94 million was applicable to dairy products. A further breakdown of these costs by commodity and fiscal year is contained in enclosure II.

The butter is stored in freezer warehouses. The Department of Agriculture's recommended maximum storage period for butter in bulk containers is 12 months. In June 1981 the monthly cost per hundredweight for storing butter averaged 27.5 cents, ranging from 15.5 cents in Missouri to 34 cents in California.

The cheese is stored in cooler warehouses. The Department does not have any recommended maximum storage period for natural cheddar cheese. In June 1981 the monthly cost per hundredweight for storing cheese averaged 24.1 cents, ranging from 14 cents in Missouri to 36 cents in Alabama.

The nonfat dry milk is stored in dry storage warehouses. The Department does not have any recommended storage period for graded nonfat dry milk. In June 1981 the monthly cost per hundredweight for storing nonfat dry milk averaged 7.5 cents, ranging from 6 cents in several States to 25.8 cents in California.

DISPOSITION OF DETERIORATED PRODUCTS

Some quality loss and spoilage does occur to a portion of the dairy products while in storage. Corporation records contain a classification for deteriorated sales which includes sales of those products that have actually spoiled and cannot be used for human consumption. However, the majority of the sales in this category are those sales of products which have had a loss in quality and had to be downgraded. These products, especially butter and cheese, can generally be reprocessed into usable dairy products.

Except for nonfat dry milk, the quantity of dairy products classified as deteriorated is small in relation to the total inventory. Moreover, the quantity of spoiled products represents a very small portion of the deteriorated quantities. Enclosure III provides the details on the quantity, value, and proceeds from dairy products classified as sold in a deteriorated condition since fiscal year 1977.

Sales of deteriorated butter

Corporation records show that 1,885,036 pounds of butter were classified as sold in a deteriorated condition from fiscal year 1977 through the first 9 months of fiscal year 1981. The inventory value of this deteriorated butter was about \$2.1 million. Proceeds from the sale were about \$1.8 million.

The Chief of the Kansas City Commodity Office's Dairy Branch said, and sales records showed, that nearly all butter that is classified as sold in a deteriorated condition is rancid--a condition that changes the taste and smell. Other cases included 170,432 pounds that were sold because ink had penetrated the butter, 1,224 pounds that had mold, 26,976 pounds that had a fishy flavor, and 31,892 pounds that had mold and a cheesy flavor. However, this butter, as well as all the rancid butter, was sold for reprocessing into butteroil--thus it was not considered spoiled.

Tracing storage costs is very time consuming. However, we did determine the storage costs for 87,622 pounds sold in May 1979. The butter had been in storage for 15 to 17 months before the sale, and the storage costs amounted to \$1,937 at a rate of 14 cents a month per hundredweight.

Sales of deteriorated cheese

The only deteriorated cheese sold by the Corporation in the last 5 fiscal years was 389,462 pounds sold in fiscal year 1979. Agency staff could provide information for only three sales totaling 335,816 pounds of natural cheddar cheese in 40-pound blocks. None of the cheese in these three sales had been restricted as to its ultimate use; thus it cannot be considered to have been spoiled. However, it had been downgraded. Of the cheese that had been sold, 322,627 pounds were reduced in grade because of undesirable characteristics, another 5,589 pounds were below any U.S. grade due to its poor condition, and another 7,600 pounds had a high acid flavor.

The cheese was from 17 to 26 months old at time of sale. Most of the cheese that was sold had been stored in two warehouses, but 13,189 pounds had been in storage at two Colorado school districts as the result of distribution through the Department's Food and Nutrition Service. None of the cheese was considered spoiled, and we did not attempt to identify related storage costs.

Sales of deteriorated nonfat dry milk

Corporation records show that 18,183,064 pounds of deteriorated nonfat dry milk were sold during the first 9 months of fiscal year 1981. The Chief of the Kansas City Commodity

Office's Dairy Branch said that about 95 percent of the nonfat dry milk that is sold is standard grade which is not considered to be spoiled. However, when the milk's moisture content reaches the 5-percent level, it can no longer be graded. He said nonfat dry milk increases in moisture content by 0.4 to 1 percent a year and is usually sold for animal feed before it reaches the 5-percent level. A review of fiscal year 1981 deteriorated sales disclosed that about 98.4 percent was standard grade and the rest (291,934 pounds) had no grade and was considered spoiled. The no-grade dry milk included 100,000 pounds with mold on the exterior of the bags, 99,750 pounds that were insect infested, and 92,184 pounds that had a high bacteria count.

A review of some fiscal year 1981 sales of deteriorated nonfat dry milk showed that nearly 66 percent had been in storage for 3 or more years, about 30 percent for 2 to 3 years, and the remainder for 5 to 24 months.

The average cost of deteriorated nonfat dry milk sold in fiscal year 1981 was 88.531 cents a pound. Thus, the cost of the 291,934 pounds spoiled was \$258,452. The Corporation received \$171,520 from the sale for a net loss of \$86,932.

We attempted to establish the costs for storing the 291,934 pounds of spoiled nonfat dry milk. However, only one sale was identified by lot number that could be easily traced to storage costs. This sale involved 99,750 pounds sold in November 1980 because of insect infestation. It was in storage from March 3, 1978, to December 11, 1980. Storage costs amounted to \$2,035 charged at a rate of 6 cents a month per hundredweight.

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At your request we did not take the additional time to obtain agency comments on the matters discussed in this report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to interested parties and make copies available to others on request.

Sincerely yours,



Henry Eschwege
Director

Enclosures - 3

AGE OF DAIRY PRODUCTS IN STORAGE AS OF JUNE 30, 1981

<u>Age</u>	<u>Butter</u>		<u>Cheese</u>		<u>Nonfat dry milk</u>	
	<u>Bulk</u> <u>(note a)</u>	<u>1-pound</u> <u>packs</u>	<u>Bulk</u> <u>(note b)</u>	<u>2- and</u> <u>5-pound</u> <u>packs</u>	<u>50-pound</u> <u>bags</u>	<u>Other</u>
	----- (thousand pounds) -----					
1 to 6 months	206,253	12,969	122,216	145,071	255,904	192
6 months to 1 year	71,107	351	36,273	90,572	133,177	30
1 to 2 years	166,183	-	4,814	7,356	192,289	82
2 to 3 years	2,409	-	-	-	5,263	-
3 to 4 years	20	-	-	-	16,457	-
4 to 5 years	<u>31</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,415</u>	<u>-</u>
Total (note c)	<u>446,004</u>	<u>13,320</u>	<u>163,304</u>	<u>243,000</u>	<u>616,507</u>	<u>303</u>

a/Packed in 60- to 68-pound blocks.

b/Packed in 40- and 60-pound blocks and 500-pound drums.

c/May not add due to rounding.

STORAGE AND TRANSPORTATION COSTS FOR GOVERNMENT-OWNED COMMODITIESBY FISCAL YEAR

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> <u>(note a)</u>	<u>Total</u> <u>(note b)</u>
	----- (000 omitted) -----					
STORAGE COSTS:						
Dairy products:						
Butter	\$ 2,274	\$ 5,902	\$ 4,984	\$ 6,499	\$ 10,409	\$ 30,068
Cheese	671	1,351	343	1,994	7,731	12,090
Nonfat dry milk	<u>4,743</u>	<u>6,419</u>	<u>5,030</u>	<u>5,338</u>	<u>5,914</u>	<u>27,443</u>
Total dairy products (note b)	7,688	13,672	10,356	13,831	24,054	69,602
Feed grains, wheat, and rice	18,894	27,935	58,842	111,699	120,938	338,308
Other (note c)	<u>3,116</u>	<u>1,947</u>	<u>3,363</u>	<u>7,384</u>	<u>500</u>	<u>16,310</u>
Total costs (note b)	<u>\$29,698</u>	<u>\$43,554</u>	<u>\$72,561</u>	<u>\$132,914</u>	<u>\$145,492</u>	<u>\$424,220</u>
TRANSPORTATION COSTS:						
Dairy products:						
Butter	\$ 3,557	\$ 2,287	\$ 2,665	\$ 6,550	\$ 7,311	\$ 22,370
Cheese	3,003	2,469	1,918	7,124	10,085	24,599
Nonfat dry milk	<u>6,227</u>	<u>6,805</u>	<u>8,244</u>	<u>13,100</u>	<u>12,649</u>	<u>47,025</u>
Total dairy products (note b)	12,787	11,561	12,827	26,774	30,045	93,995
Feed grains, wheat, and rice	2,130	4,067	11,432	58,479	24,908	101,017
Other (note c)	<u>3,936</u>	<u>2,530</u>	<u>3,210</u>	<u>6,140</u>	<u>2,455</u>	<u>18,271</u>
Total costs (note b)	<u>\$18,853</u>	<u>\$18,158</u>	<u>\$27,469</u>	<u>\$91,393</u>	<u>\$57,409</u>	<u>\$213,282</u>

a/Costs through June 30, 1981.

b/May not add due to rounding.

c/Includes oils, seeds, peas, cotton, vegetable oil products, and sugar.

QUANTITY, VALUE, AND PROCEEDS FROM DAIRY PRODUCTSCLASSIFIED AS SOLD IN A DETERIORATED CONDITION

<u>Item</u>	<u>Fiscal year</u>	<u>Quantity (pounds)</u>	<u>Inventory value</u>	<u>Proceeds</u>
Butter	1977	27,062	\$ 24,814	\$ 20,704
	1978	283,972	280,166	257,093
	1979	617,808	635,218	606,754
	1980	956,194	1,137,014	888,293
	1981 (through 6/30/81)	-	-	-
Cheese	1977	-	-	-
	1978	-	-	-
	1979	389,462	401,724	341,755
	1980	-	-	-
	1981 (through 6/30/81)	-	-	-
Nonfat dry milk	1977	3,365,449	2,164,976	1,146,096
	1978	34,428,321	22,796,315	9,744,080
	1979	57,307,241	39,105,579	15,898,145
	1980	71,125,019	55,612,694	32,752,688
	1981 (through 6/30/81)	18,183,064	16,097,665	10,449,823