



088924

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

MAY 8 1972

RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION

Dear Mr. Kossack:

We have inquired into certain features of the Federal Milk Marketing Order program. During our inquiries, we developed information on certain matters related to the prices paid to milk producers under the marketing orders which we believe may be of interest to you.

We were unable to evaluate these matters fully because we do not have access to the records of the Department of Agriculture's milk marketing order administrators. We understand, however, that the Secretary of Agriculture has the authority to authorize your Office access to the records. Because we do not plan to continue our review in this area at the present time, we are furnishing the following information as a basis for you to request access to records and pursue these matters.

A Federal milk marketing order, which is issued by the Secretary of Agriculture, regulates the handling of milk for the area for which it is issued. It requires all milk handlers--those who purchase and sell milk in the market area--to pay dairy farmers regularly supplying the market not less than certain minimum prices established in accordance with the way or form in which the milk is utilized.

Certain deductions from the minimum prices, such as locational differentials, are allowable under the marketing order regulations. Also cooperative associations, as handlers under marketing orders, are not obligated to pay their producers the established minimum prices. Under a section of the Agricultural Marketing Agreement Act of 1937 (7 U.S.C. 608c(5)(F)), a cooperative association may determine a lower price to pay its producers by averaging a part or all of the sales proceeds from all dairy products under all marketing orders in which the association is involved.

Our review of the Department's fluid milk and cream reports, which are published monthly, showed that milk producers often do not receive the minimum prices set forth under the marketing orders. For example, during 1971 (1) some producers were paid as much as 95 cents a hundredweight below the minimum price for milk delivered to handlers during a particular month and (2) there were two marketing orders under which producers were paid more than 50 cents a hundredweight below the minimum prices for the entire year.

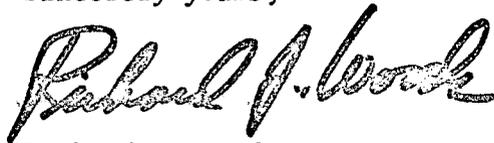
915417/088924

From data supplied for several marketing orders, we estimated that producers under those orders were paid \$19 million below minimum prices during 1971 and \$7 million below during 1970. We could not determine the extent to which such underpayments were justified or the extent and amount that producers under all marketing orders were underpaid because the necessary information was not available to us.

Milk marketing order administrators, who are appointed by the Secretary to administer the marketing orders, are responsible for determining that handlers are complying with the order requirements, including the payment of minimum prices. Our review indicated, however, that many market administrators do not have the resources necessary to verify the prices paid by cooperative associations, particularly when the associations operate under several marketing orders.

We will be glad to discuss these matters further with you or members of your staff. We would also appreciate being informed of any action your Office takes on these matters.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard J. Woods". The signature is written in dark ink and is positioned above the typed name and title.

Richard J. Woods
Assistant Director

Mr. Nathaniel Kossack
Inspector General
Department of Agriculture