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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

OCT 13 1969

Dear Mr. Hekman:

The General Accounting Office has made a review of the distribution of Government-donated food commodities to institutions in Illinois and Minnesota. The commodities are furnished to State distributing agencies under the Commodity Distribution Program of the Food and Nutrition Service. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U S C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67)

Our review showed that all eligible institutions in Illinois and Minnesota were not given an opportunity to participate in the commodity distribution program because neither the Food and Nutrition Service nor the State distributing agencies had established policies and procedures for periodically providing public and nonprofit institutions not participating in the program with information concerning (1) eligibility requirements for participation, (2) benefits of the program, and (3) procedures on how to apply for participation.

Accordingly, we are recommending that the Food and Nutrition Service, through the State distributing agencies, provide to all nonparticipating public and nonprofit institutions serving needy individuals information on eligibility requirements, program benefits, and procedures on how to apply for participation. We are also recommending that the State distributing agencies be required to periodically provide, thereafter, nonparticipating public and nonprofit institutions with similar information.

Our review also revealed a need to strengthen the administration of the institutional portion of the commodity distribution program. Accordingly, we are recommending that the Food and Nutrition Service prepare separate operating manuals for use by its regional offices, the State distributing agencies, and participating institutions. Such manuals should include a consolidation of all regulations, policies, standards, and procedures applicable to the operation of the program at each of the three organizational levels. Further, we are recommending that the operating manuals for use by the State distributing agencies and regional offices include criteria and guidelines for the performance of administrative reviews on a thorough and systematic basis.

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The enclosure to this letter describes our findings and recommendations in detail. We will be pleased to discuss these matters with you or members of your staff if you desire. Also, we will appreciate receiving your comments and advice as to the particular actions you plan to take with respect to our recommendations.

We wish to acknowledge the cooperation extended to our representatives during the review. Copies of this report are being furnished to the Inspector General, Department of Agriculture.

Sincerely yours,


Victor L. Lowe
Associate Director

Enclosure

Mr. Edward J. Hekman
Administrator
Food and Nutrition Service
Department of Agriculture

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REVIEW OF
DISTRIBUTION OF GOVERNMENT-DONATED FOOD
COMMODITIES TO INSTITUTIONS IN ILLINOIS AND MINNESOTA
FOOD AND NUTRITION SERVICE 1/
DEPARTMENT OF AGRICULTURE

INTRODUCTION

The General Accounting Office has made a review of the institutional portion of the commodity distribution program administered by the Food and Nutrition Service (FNS), Department of Agriculture. Our review was performed at FNS's headquarters, Washington, D C ; FNS's Midwest Regional Office, and at two of the 11 State distributing agencies under the jurisdiction of the Midwest Regional Office which are responsible for the distribution of Government-donated food commodities to institutions in Illinois and Minnesota. We also visited 29 institutions located within the two States which were participating in the program. Further details on the scope of our examination, which was limited to the institutional aspects of the commodity distribution program, are described on page 11 of this report.

The Department of Agriculture, through its commodity distribution program, purchases and donates commodities for distribution to school children and to persons in low income and needy groups. Commodities are made available for use in the United States to schools operating nonprofit school lunch programs, nonprofit summer camps for children, needy Indians, charitable institutions serving needy persons, State correctional institutions for minors, and State and local public welfare agencies for distribution to needy persons.

Commodities for distribution to institutions are acquired by the Department under the surplus-removal program and as a result of price-support operations. They are made available for distribution pursuant to section 32 of the act of August 24, 1935, as amended (7 U S C 612c), and section 416 of the Agricultural Act of 1949, as amended (7 U S C 1431)

1/Effective August 8, 1969, the Food and Nutrition Service was established in the Department of Agriculture. The Commodity Distribution Division and the five Consumer Food Programs District Offices formerly administered by the Consumer and Marketing Service, Department of Agriculture, were transferred to FNS. The Consumer Food Programs District Offices were redesignated as Food and Nutrition Service Regional Offices.

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The Secretary of Agriculture has assigned the function of overall administration of the commodity distribution program to FNS. FNS is responsible for approving written agreements with State distributing agencies prior to the inauguration of a distribution program, for administering the execution of the agreements, and for purchasing and allocating commodities acquired under the section 32 program. FNS also allocates commodities acquired under price-support operations that are available for donation under the section 416 program. The Department's Agricultural Stabilization and Conservation Service assists FNS in administering the program by carrying out FNS instructions for the delivery of commodities from contractors, arranging for the transportation, and paying for the purchase, transportation, and handling charges.

The Commodity Distribution Division has been delegated the administrative functions relating to the allocation and distribution of donated foods to State distributing agencies which in turn redistribute the commodities to institutions. The five FNS regional offices are responsible for carrying out policies and functions pertaining to the field administration of the program within designated geographical areas. These offices are located in Atlanta, Georgia, Chicago, Illinois, Dallas, Texas, New York, New York, and San Francisco, California. The administration of the institutional portion of the commodity distribution program within the States is the responsibility of State distributing agencies.

Department regulations define institutions as meaning (1) nonpenal, noneducational, public (Federal, State or local) institutions, (2) non-profit, tax-exempt, private hospitals, or (3) other non-profit, noneducational, tax-exempt, private institutions organized for charitable or public welfare purposes, including but not limited to, homes for the aged, orphanages, refugee camps, and child-care centers. The regulations also define "State correctional institutions for minors" as institutions.

In order for an institution to be eligible to receive commodities, it must agree that (1) donated commodities will be used for its consumption and will not be sold, traded, or otherwise disposed of, (2) there will be no discrimination or segregation between paying and nonpaying persons receiving donated commodities, (3) adequate facilities will be provided for the handling, storing and use of the donated commodities, (4) expenditures for food will not be reduced because of the receipt of such donated food commodities, and (5) commodities available will be requested only in such quantities as will be fully utilized.

The quantity and cost of commodities distributed to eligible recipients in institutions during fiscal year 1968 in the two States included in our review as well as for all other States and political subdivisions are as follows:

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	<u>Number of pounds of commodities donated</u>	<u>Cost to the Federal Government</u>
Illinois	6,003,000	\$ 1,064,000
Minnesota	<u>3,342,000</u>	<u>527,000</u>
Subtotals	9,345,000	\$ 1,591,000
Other States and Political Subdivisions	<u>138,757,000</u>	<u>21,656,000</u>
Totals	<u>148,102,000</u>	<u>\$ 23,247,000</u>

Reports from State distributing agencies located in the Midwest Region indicate that as of December 1968 there were about 2,300 institutions with about 296,000 eligible participants receiving commodities under the program. The institutional data reported for the States of Illinois and Minnesota is as follows.

	<u>Number of institutions</u>	<u>Reported eligible participants</u>
Illinois	348	62,294
Minnesota	<u>324</u>	<u>26,663</u>
Total	<u>672</u>	<u>88,957</u>

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NEED TO PROVIDE OPPORTUNITY FOR
ELIGIBLE INSTITUTIONS TO PARTICIPATE IN
COMMODITY DISTRIBUTION PROGRAM

Our review showed that all eligible institutions in Illinois and Minnesota were not given an opportunity to participate in the commodity distribution program because neither FNS nor the State distributing agencies had established policies and procedures for periodically providing public and nonprofit institutions not participating in the program with information concerning (1) eligibility requirements for participation, (2) benefits of the program, and (3) procedures on how to apply for participation.

Federal regulations provide that federally donated commodities under the commodity distribution program may be made available to State distributing agencies for distribution to needy persons within certain public and nonprofit institutions. However, our review of FNS regulations, policies, and procedures and our discussions with FNS officials revealed that guidelines had not been established to ensure that all eligible institutions are given an opportunity to participate in the program. Further, FNS officials advised us that they were not aware of any States that had established such guidelines.

Our examination of State directories of health care facilities covering hospitals, nursing homes, homes for the aged, and boarding care homes, revealed that there were 466 public and nonprofit institutions in Illinois and Minnesota that were not participating in the commodity distribution program as of January 1969. We submitted questionnaires to these 466 potentially eligible nonparticipating institutions and received 269 replies. Of those institutions responding, 137, or about 51 percent, expressed interest in participating in the program. However, because the Illinois and Minnesota State distributing agencies have established policies regarding the minimum number of needy persons in an institution to be eligible for program participation, only 71 of these 137 interested institutions would be eligible under the States' regulations to participate in the program.

The 71 interested and apparently eligible institutions reported a caseload of about 2,800 needy persons. These institutions included both public and nonprofit hospitals, nursing homes, homes for the aged and boarding care homes and were located in both urban and rural areas throughout the two States. Most of these eligible nonparticipating institutions were unaware of the operation of the commodity distribution program and a number of those that were aware of the program indicated a lack of knowledge regarding the program.

We believe that the results of our canvass in only two States indicated that, on a national basis, a substantial number of needy persons

could be residing in eligible nonparticipating institutions which should be given an opportunity to participate in the program. Accordingly, in view of the potentially significant number of needy individuals in nonparticipating institutions whose diets could be supplemented through the commodity distribution program, we believe there is a need to make available to all nonparticipating public and nonprofit institutions, on a nation-wide basis, information concerning (1) eligibility requirements for participation, (2) benefits of the program, and (3) procedures on how to apply for participation

In June 1969, we discussed the results of our review with officials of the regional office who agreed that all eligible institutions should be given an opportunity to participate in the program. These officials also acknowledged the desirability of canvassing nonparticipating institutions and informed us that the results of our canvass would be turned over to the Illinois and Minnesota distributing agencies for their use in soliciting program participation

RECOMMENDATION

In view of the need to provide an opportunity for eligible institutions to participate in the commodity distribution program, we recommend that the Administrator of FNS--through the State distributing agencies--provide to all nonparticipating public and nonprofit institutions serving needy individuals information on eligibility requirements, program benefits, and procedures on how to apply for participation. We recommend also that the Administrator require the State distributing agencies to periodically provide, thereafter, nonparticipating public and nonprofit institutions with similar information

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NEED TO STRENGTHEN ADMINISTRATION
OF THE INSTITUTIONAL PORTION OF THE
COMMODITY DISTRIBUTION PROGRAM

Our review in Illinois and Minnesota revealed a need for FNS to strengthen its administration of the institutional portion of the commodity distribution program. We noted various administrative weaknesses at the State level, including an inadequate determination of the eligibility of institutions and of the number of needy persons within institutions eligible to participate in the program. We believe that the major reasons for these administrative problems resulted from the limited efforts devoted to the program by the FNS regional office and from FNS not having provided the State agencies with adequate written instructions for administration of the program.

Following is a summary of the administrative weaknesses revealed during our review.

1. Procedures established by both State distributing agencies require institutions to disclose whether they are public tax-supported or private-nonprofit tax-exempt institutions and, if the latter, to furnish proof of their exemption status. Our review of distributing agencies' records showed that documentation for 156 institutions claiming to be tax-exempt was not available and that 33 others could not be identified as either tax-supported or tax-exempt institutions. We checked the names of the 688 institutions receiving donated commodities in Illinois and Minnesota against names included in Internal Revenue Service listings of tax-exempt organizations and against listings of tax-supported institutions prepared by the States. We found that the majority of the institutions were either tax-supported or tax-exempt organizations. However, at the conclusion of our field work, we had not been able to ascertain whether 19 institutions in Illinois and Minnesota that were receiving donated commodities were tax-exempt organizations.
2. Our review of the Minnesota distributing agency's agreements with the individual institutions revealed that three institutions were proprietary organizations and, as such, were ineligible to participate in the program. Participation in the program by the three private businesses was discontinued after we brought the cases to the attention of the State distributing agency. The three institutions had received commodities valued at about \$5,085 during their participation in the program.

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3. Our review of the Illinois distributing agency's agreements with the individual institutions revealed that eight institutions were engaged in religious activities such as maintaining homes for retired members of religious orders and preparing students for membership in religious orders. An FNS instruction issued in October 1954, states that institutions devoted to religious instructions, convents, and missionary schools were not eligible to participate in the program.

The FNS instruction, which was based on a May 1947 Department of Agriculture legal decision, stated that persons residing at such institutions have voluntarily chosen the adoption of the profession they are following and, therefore, do not meet the eligibility requirements for receiving commodities inasmuch as they cannot demonstrate economic need. We were advised by the State distributing agency personnel that they had not been aware of the existence of the instruction. We also noted that the instruction was designated for distribution only to FNS regional offices and not to the State distributing agencies which have the responsibility for determining whether institutions are eligible to participate in the program.

The eight institutions received commodities valued at about \$10,225 during calendar year 1968.

4. Our review of the records on institutions maintained by both State distributing agencies revealed cases where current information on the number of needy persons within the institutions was not provided. In the absence of such data, we believe that the State distributing agencies did not have an adequate basis for determining the amount of commodities to be distributed to the individual institutions.
5. Our visits to 14 institutions in Minnesota and 15 institutions in Illinois that were participating in the program revealed that five institutions were overstating the number of needy persons within the institutions eligible to receive commodities. The five institutions received about \$850 in commodities from October 1968 through March 1969 in excess of the amounts permitted by regulations. Other matters revealed during our visits to institutions which were contrary to regulations or to the agreements with the State distributing agencies included (1) the use of donated commodities by employees of a State

institution, (2) inventories that exceeded a 60 day supply, and (3) the destruction of infested commodities without obtaining approval of the State distributing agency

Based on our discussions with institutional personnel, we believe that a major factor contributing to the deficiencies noted resulted from a lack of understanding on the part of institutional personnel as to the various requirements governing their participation in the program

With respect to FNS's administration of the program, our review revealed that FNS had issued instructions and guidelines on a fragmented basis over the years which State distributing agencies were expected to be aware of to properly administer the program. We found that these guidelines had been periodically cancelled, revised, or superseded without proper control to ensure that all responsible parties received current and complete instructions. Accordingly, State distributing agencies in Illinois and Minnesota were not fully aware of the current eligibility requirements necessary for institutions to participate in the program or the basis for determining those needy residents to be included as recipients

In February 1969, the FNS regional office furnished the State distributing agencies a listing which identified 18 current instructions that were applicable to the institutional portion of the program and which they were expected to have. However, our review showed that there were 11 other current instructions that concerned the distribution of commodities to institutions which were not included in this listing. In addition, we found that six of the 11 instructions were not designated for distribution to the distributing agencies and that these six specifically dealt with special situations involving the determination of the eligibility of institutions which is the responsibility of the State distributing agencies

We were advised that the FNS regional office attempts to perform an administrative review of each State distributing agency annually. As part of the administrative reviews, the regional office staff schedules visits to review operations of selected institutions within the States. In addition, the regional office staff supplements its regular administrative reviews by conducting reviews of other institutions at various times during the year

During calendar year 1968, the regional office staff performed administrative reviews of only five of the 11 distributing agencies

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within the region. With respect to district office reviews in Illinois and Minnesota, the Illinois distributing agency and 42 institutions were reviewed during calendar year 1968, however, the district office did not review the Minnesota distributing agency or any institutions within Minnesota. Our review of the instructions provided to the regional office staff members performing the administrative reviews showed that the reviews were to include such matters as verifying the eligible case-load within institutions and the maintenance of proper records for the receipt and use of commodities. However, the instructions did not include making a determination as to whether the institutions met the eligibility requirements for participating in the program.

Our review of Federal regulations governing the program revealed that the State distributing agencies are not required to periodically perform reviews to ensure that individual institutions were participating in the commodity distribution program in accordance with Federal and State requirements. Further, we were advised by officials of the Illinois and Minnesota distributing agencies that there were no specific State policies requiring periodic reviews of the institutions participating in the program by State agency employees. Although no Federal regulation or State policy required it, we found that the Illinois distributing agency reviewed 70 institutions during calendar year 1968. However, we also found that the Minnesota distributing agency, which has a similar number of participating institutions as Illinois, reviewed only four institutions during the same period.

Because of the weaknesses revealed during our review of the institutional portion of the commodity distribution program, we believe that there is a need to strengthen the administration of the program. While the program is basically operated by the States, we believe that FNS can effect a substantial improvement in the program's operation by (1) intensifying, on a systematic basis, its administrative reviews of the institutions and State distributing agencies, (2) providing the institutions and State distributing agencies with all regulations, policies, standards, and procedures needed for the effective operation of the program, and (3) amending the Federal regulations to provide for the State distributing agencies to annually review, on a cycle basis, a minimum number of participating institutions.

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The need to strengthen administration of the commodity distribution program was also discussed in a report issued on March 25, 1969 by the Office of the Inspector General concerning the procurement and allocation of commodities for consumer food programs. The following comments were included in the report:

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- The nature and extent of problems disclosed during the review reflected a need for improved management control and guidance of field operations.
- In-depth reviews of regional office operations are needed to determine whether national policies are being interpreted properly and effectively carried out and whether national policies and district office procedures are adequate to attain program objectives
- More effective regional office reviews are needed of the State distributing agencies' operations

RECOMMENDATION

In view of the need to strengthen administration of the institutional portion of the commodity distribution program, we recommend that the Administrator of FNS have operating manuals prepared for use by the district offices, State distributing agencies, and participating institutions. Such manuals should include a consolidation of all regulations, policies, standards, and procedures applicable to the operation of the program at each of the three organizational levels. Further, we recommend that the operating manuals for use by the regional offices and State distributing agencies include criteria and guidelines for the performance of administrative reviews on a thorough and systematic basis.

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SCOPE OF REVIEW

Our review was performed at FNS headquarters, Washington, D C , FNS Midwest Regional Office, Chicago, Illinois, and the Illinois and Minnesota distributing agencies located at Springfield, Illinois, and St Paul, Minnesota, respectively We also visited 29 institutions located within the two States which were participating in the commodity distribution program.

We reviewed pertinent legislation, regulations, and instructions relating to the donation of commodities to institutions. We examined reports, records, correspondence, and agreements entered into with the individual institutions by the State distributing agencies We also reviewed records maintained by the institutions we visited and examined into the eligibility of institutions and individuals within institutions to participate in the commodity distribution program. In addition, we examined into the controls maintained by the State distributing agencies and the institutions over the distribution, use and storage of donated commodities.

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