



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

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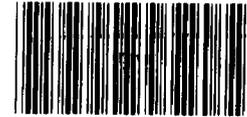
COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-202425

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The Honorable Roger W. Jepsen
United States Senate

RELEASED



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Dear Senator Jepsen:

Subject: [Increase in Hourly Rate Charged by
Department of Agriculture for Resident
Inspectors at Egg Processing
Plants] (CED-81-82)

In response to your January 28, 1981, letter, we reviewed the Department of Agriculture's justification for the 40-percent increase in hourly fees, from \$8.34 to \$11.68, for voluntary poultry and egg grading services. Specifically, we met with officials of the Department's Food Safety and Quality Service's Poultry and Dairy Quality Division to obtain information on the basis for the fee increase and examined the data the Division used in computing the size of the fee increase. For this limited review, we relied extensively on data from the Service's financial records but did not assess the accuracy of the records. For comparison, we also obtained information on increases in the fees the Service charges for other voluntary commodity inspection and grading services.

In summary, our limited review indicates that the increase in the hourly fee, which was effective January 25, 1981, and which was the first increase since 1977, was needed because of (1) a Service decision not to increase the fee to cover a projected loss of \$510,000 in fiscal year 1980, (2) an underestimate of about \$440,000 in the net loss that the program would incur in fiscal year 1980, and (3) large increases in fiscal year 1981 costs due to an upgrading of poultry and egg graders, a Federal pay raise, and increases in travel-related costs for relief graders. Also, we found that the hourly rates charged for most other commodity grading services either have been increased recently or are in the process of being increased.

Service officials acknowledged that two increases, one in each of calendar years 1980 and 1981, might have been more acceptable to the industry. They plan to avoid large increases in the future by making smaller, more frequent increases.

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The Department's voluntary commodity inspection and grading programs provide grading, examination, and certification services for a wide variety of products including poultry, eggs, dairy products, meat, and fresh and processed fruits and vegetables. Pursuant to the Agricultural Marketing Act of 1946, as amended, the Department is authorized to assess and collect reasonable fees which as nearly as possible cover the costs of the service provided. Office of Management and Budget (OMB) Circular No. A-25 requires Federal agencies to review the cost of providing a service every year and adjust the fee as necessary.

The Department maintains an operating reserve for each grading program so that sufficient funds will be available to cover (1) losses resulting from unforeseen fluctuations in revenues or expenses and (2) costs associated with closing down the program if it were terminated. The hourly fee charged for each commodity grading service is reviewed annually to determine whether an adjustment in the fee is necessary to cover expenses and maintain an adequate operating reserve.

FEE NOT RAISED IN 1980 EVEN
THOUGH SERVICE PROJECTED A LOSS

In their annual review to determine the adequacy of the poultry and egg grading fees, Service officials projected that the program would operate at a loss in fiscal year 1980 if the fees were not increased. They decided to let the program's operating reserve absorb the loss, however, and not increase the fee.

The projected loss (\$510,000) was due to in-plant operation costs, primarily salaries of graders and per diem and travel-related costs of relief graders. According to the Director of the Poultry and Dairy Quality Division, Federal and State salaries had increased an average of 25 percent since the fee was raised last in 1977.

1980 LOSS UNDERESTIMATED

The Division underestimated the net loss that the program would incur in fiscal year 1980 by about \$440,000. Actual program losses amounted to about \$950,000 due to underestimating costs by about \$600,000 and underestimating revenues by about \$160,000.

INCREASES IN FISCAL YEAR 1981 COSTS

Some of the principal factors increasing program costs for fiscal year 1981 include the upgrading of poultry and egg graders from GS-7 to GS-8, a 9.1-percent increase in Federal salaries effective October 1980, and an increase in the travel and per diem costs for relief graders.

In a January 7, 1981, memorandum, the Department's Office of Personnel granted the reclassification of poultry and egg graders from GS-7 to GS-8 based on an analysis and evaluation of data submitted by the Service. According to Poultry and Dairy Quality Division statistics, the upgrading of poultry graders will increase program costs by about \$330,000 for fiscal year 1981.

The Division also calculated that the program would incur about a \$350,000 loss for the first 4 months of fiscal year 1981 due to the October 1980 Federal pay raise. The loss was due to the time lag between the effective date of the raise and the effective date of the increase in the hourly fee for grading services (Jan. 1981). Also, according to the Division's Director, recent increases in travel and per diem rates will further increase the costs of providing relief graders during fiscal year 1981.

Division officials told us that even with the 40-percent fee increase, they expect the program's operating reserve to be about the same at the end of fiscal year 1981 as it was at the end of fiscal year 1980.

RATE INCREASES FOR OTHER GRADING PROGRAMS

Most of the hourly rates charged for other commodity grading programs have either increased recently or are in the process of being increased. On December 28, 1980, the hourly fee for fresh fruit and vegetable grading increased from \$15 to \$19 an hour. The regular hourly fee charged for meat grading services, also effective December 28, 1980, increased from \$18.20 to \$20.20 an hour due to what the Service Administrator said were increased costs resulting from Federal pay increases. The Director of the Service's Fruit and Vegetable Quality Division said a proposal for increasing the fee for grading processed fruits and vegetables from \$20.80 to \$22 an hour is currently before the Office of Management and Budget for clearance.

CONCLUSIONS AND AGENCY COMMENTS

In light of the increases in program costs since 1977, the Department of Agriculture was justified in increasing the hourly fee charged for poultry and egg grading.

The Director of the Poultry and Dairy Quality Division recognizes that large fee increases are not readily acceptable to the industry. Therefore, officials plan to avoid large increases in the future by making smaller, more frequent increases as called for by OMB Circular No. A-25.

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As arranged with your office, we will make this report available to the Department of Agriculture and other interested parties 15 days after issuance.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege".

Henry Eschwege
Director