



U.S. Department of Agriculture



Office of Inspector General  
Midwest Region

# **Audit Report**

## **Food and Nutrition Service Controls Over USDA-Donated Commodities**

Report No. 27601-0033-CH  
SEPTEMBER 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: September 30, 2004

REPLY TO

ATTN OF: 27601-0033-CH

SUBJECT: Controls Over USDA-Donated Commodities

TO: Roberto Salazar  
Administrator  
Food and Nutrition Service

ATTN: Lael Lubing  
Director  
Grants Management Division

This report presents the results of our review to evaluate FNS' controls over the storage and use of USDA-donated commodities. Management decision has been reached on all five recommendations, and therefore, no further correspondence with our office is necessary.

Please follow your agency's internal procedures in forwarding final action correspondence to the Office of the Chief Financial Officer. If you have any questions, please contact me at 202-720-6945, or have a member of your staff contact Stephen Fowkes, Director, Food and Marketing Division, at 202-720-7805.

We appreciate the cooperation and courtesies extended to us during this review.

/s/

Marlane T. Evans

for ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

# ***Executive Summary***

## ***Controls Over USDA-Donated Commodities (Audit Report No. 27601-0033-CH)***

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### **Results in Brief**

This report presents the results of our audit of the Food and Nutrition Service's (FNS) controls over USDA-donated commodities in the Food Distribution Program (FDP). The purpose of this audit was to assess storage and handling practices, including the age and condition of commodities, inventory levels, and storage temperatures, at selected storage facilities, and to follow up on recommendations from a previous OIG audit.<sup>1</sup>

Based on our audit work at the FNS National Office, we found that FNS did not take timely or appropriate actions to identify and resolve food safety complaints. FNS had not established written procedures for following up on hotline complaints, including those that potentially related to food safety. As a result, FNS had reduced assurance that only wholesome and nutritious USDA-donated commodities were being served to program participants, including school children.

Because of health and safety concerns stemming from four school complaints between November 2003 and February 2004, the Illinois Department of Public Health (IDPH) placed USDA-donated applesauce on hold and referred the product to the Food and Drug Administration (FDA) for testing. FNS was aware of the Illinois complaints, and our review of the FNS national hotline complaint log disclosed that there were 24 applesauce complaints for rust or discoloration over the 6-month period from September 2003 through February 2004. FNS, however, had not identified the extent of the complaints, nor had it referred the product to the regulatory agency for testing to determine whether it was safe for human consumption. Because FNS had not established timeframes for resolving complaints, as of February 26, 2004, it was still awaiting a response from the Agricultural Marketing Service (AMS), the contracting agency, to close 14 of the 24 complaints, which dated back as far as September 12, 2003.

On March 19, 2004, we issued a Management Alert recommending that FNS take actions to identify the extent of the applesauce problem, resolve all existing complaints, and establish written procedures for performing trend analyses, identifying potential food safety concerns, and outlining responsibilities and timeframes for all involved agencies. In its response to the Management Alert (exhibit B), FNS stated that FDA had tested the applesauce and determined that there was no microbial contamination.

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<sup>1</sup> Audit No. 27601-0019-CH, National School Lunch Program and School Breakfast Program Controls Over USDA-Donated Commodities, dated September 1999.

However, the samples did exhibit signs of de-tinning<sup>2</sup>, which renders the product unfit for human consumption. Although FDA's inspection at the plant revealed no deficiencies, AMS' investigation found quality control weaknesses in the canning manufacturer's facility. FNS decided to issue a nationwide advisory to the affected States. FNS officials also indicated that they were collaborating with the Food Safety and Inspection Service (FSIS) and AMS to more effectively identify food safety concerns and to shorten the timeframes for resolving complaints.

In addition, our audit found that, in Illinois and California, FNS had generally corrected weaknesses that were reported in a prior OIG audit of the FDP. FNS had implemented changes to improve the program's efficiency, such as allowing State distributing agencies to place commodity orders directly online and allowing vendors to use commercial labels. However, commercial labels do not always include pack dates, and it was difficult for recipients to differentiate USDA commodities from commercial product. Therefore, FNS lessened its controls at the recipient level. Specifically, FNS stopped requiring recipient agencies to maintain separate inventories for donated commodities, to perform annual physical inventories, and to report lost, stolen, or out-of-condition commodities to FNS.

Although we had concerns over the removal of these controls, our testing at 12 warehouses in three States in the Southwest, Midwest, and Western regions disclosed minimal amounts of aged product. However, we identified one instance where FNS did not notify the State of aged product purchased through its surplus removal program, and one instance where questionable commodities were not tested in a timely manner, as described in the General Comments section of this report.

## **Recommendations in Brief**

We recommended that FNS notify the 11 State distributing and corresponding recipient agencies of the potential problem with applesauce, and that it follow up with FDA to determine if the nature of the applesauce complaints posed a health risk. If so, we recommended that FNS immediately place applesauce on hold. We further recommended that FNS work with AMS to resolve all existing complaints, and that it establish written procedures for identifying potential food safety concerns, performing trend analyses, placing product with potential food safety concerns on hold, and outlining responsibilities and timeframes for all involved agencies.

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<sup>2</sup> De-tinning is an interaction between an acidic product such as tomatoes, juices, pickles and sauerkraut, the tin-plate and a small amount of oxygen that is left remaining in the can after it is sealed.

## **Agency Response**

In its April 8, 2004, response to the Management Alert, FNS officials agreed with the recommendations and stated that FDA found no microbial contamination in the applesauce and no deficiencies at the vendor's plant. However, FDA found evidence of de-tinning, which renders the product unfit for human consumption. Because FNS determined that only small quantities of product remained, they issued a nationwide advisory on canned applesauce from the identified vendor. FNS agreed to work with AMS to establish written guidelines and timeframes for hotline complaint resolution. FNS also agreed to establish written procedures for identifying food safety issues for referral to the regulatory agency; performing trend analyses of hotline complaints; and delineating responsibilities for all agencies involved in the hotline complaint process.

## **OIG Position**

Based upon FNS' response to the Management Alert, we have reached management decision on all five recommendations. At the exit conference held on September 28, 2004, FNS officials stated they had no further comments to this report. Requirements for Final Action are listed under OIG Position for each recommendation within the Findings and Recommendations section of the report.

### ***Abbreviations Used in This Report***

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AMS	Agricultural Marketing Service
BIUB	Best If Used By
CPS	Chicago Public Schools
ECOS	Electronic Commodity Ordering System
FDA	Food and Drug Administration
FDP	Food Distribution Program
FNS	Food and Nutrition Service
FSA	Farm Service Agency
FSIS	Food Safety Inspection Service
FSMC	Food Service Management Company
IDPH	Illinois Department of Public Health
ISBE	Illinois State Board of Education
NSLP	National School Lunch Program
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
TEFAP	The Emergency Food Assistance Program
USDA	United States Department of Agriculture

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# ***Background and Objectives***

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## **Background**

The Food and Nutrition Service (FNS) administers the Food Distribution Program (FDP), the National School Lunch Program (NSLP), The Emergency Food Assistance Program (TEFAP), and numerous other nutrition programs throughout the United States and its territories. The FDP purchases commodities through direct appropriations from Congress and through the surplus removal and price support programs administered by the Agricultural Marketing Service (AMS) and the Farm Service Agency (FSA). These commodities are distributed to State agencies for use by eligible local outlets, including schools participating in the NSLP, food banks participating in TEFAP, and several other recipient agencies.

Under the Healthy Meals for Healthy Americans Act of 1994 (P.L.103-448), Congress required that per meal commodity support be adjusted to ensure that 12 percent of the total school lunch program support is provided in the form of commodities, not including the bonus commodities purchased through the surplus removal and price support programs. Schools and other institutions were authorized to receive an average of 15.75 cents worth of commodities per lunch or supper served in fiscal year 2004. In fiscal year 2003, FNS provided over \$1.5 billion in donated commodities to all programs, of which over \$975 million was provided to the Child Nutrition Programs and \$372 million to TEFAP.

In fiscal year 2003, FNS amended Federal regulations<sup>3</sup> to reduce the recordkeeping and reporting requirements at the recipient agencies. These changes do not apply to TEFAP, the Food Distribution Program on Indian Reservations (FDPIR), or the Commodity Supplemental Food Program (CSFP). Under the new regulations, the applicable recipient agencies are no longer required to: (1) maintain separate inventories of donated commodities; (2) perform an annual physical inventory and reconciliation; (3) report lost, stolen, or out-of-condition commodities, or excessive inventories; or (4) maintain records of receipt, disposition/disposal, or inventory of commodities.

## **Objectives**

Our objectives were to evaluate FNS' controls over the storage and use of USDA-donated commodities, and follow up on findings and recommendations from a prior OIG audit.<sup>4</sup>

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<sup>3</sup> Title 7 Code of Federal Regulations (CFR) Part 250 Final Rule, dated October 23, 2002.

<sup>4</sup> Audit No. 27601-0019-CH, National School Lunch Program and School Breakfast Program Controls Over USDA-Donated Commodities, dated September 1999.



# ***Findings and Recommendations***

## ***Section 1. FNS Actions To Identify and Resolve Food Safety Complaints***

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### **Finding 1**

#### **FNS Did Not Take Timely Or Appropriate Actions To Resolve Commodity Complaints**

We found that, although the Illinois Department of Public Health (IDPH) had placed applesauce on hold based on four complaints of rust or corrosion in the product, FNS had not identified the extent of the problem or referred the product to the regulatory agency to test whether it was safe for human consumption. This occurred because FNS had not established written procedures for handling hotline complaints. Without such procedures, FNS has reduced assurance that food safety issues will be identified and resolved before USDA-donated commodities reach program participants.

Federal Regulations <sup>5</sup> state that FNS is responsible for evaluating all levels of program operations to assure that the goals of the FDP are met. One of the goals is providing nutritious foods to children and needy adults.

FNS requests schools and other commodity recipients to submit complaints to its national hotline. The FNS complaint team enters the complaints into a specialized database and forwards them to the contracting agency, either AMS or FSA, depending on the commodity. The contracting agency follows up with the vendor to ensure compliance with contract specifications and re-inspects the product if necessary. If the complaint involves illness, injury, or chemical/physical hazards, the FNS complaint team coordinates with the Food Safety Unit to direct the complaint to the appropriate regulatory agency—the Food and Drug Administration (FDA) or the Food Safety and Inspection Service (FSIS)—for investigation and testing. If a serious health risk is present, FNS has the authority to place commodities on hold until the regulatory agency tests the commodities and provides instruction to FNS. FNS had developed a flowchart for handling food safety complaints, but it did not detail the actions required or timeframes for handling complaints.

Our review of FNS' hotline complaint log disclosed that from September 1, 2003, through February 26, 2004, there were 24 complaints from 15 States for rust or discoloration of applesauce.

Between November 2003 and February 2004, the Illinois State Board of Education (ISBE) forwarded four complaints from school districts regarding corrosion, rust, or discoloration of applesauce to the FNS national complaint hotline and to the IDPH, which handles health and safety concerns within the State. On February 4, 2004, IDPH indicated that the applesauce complaints

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<sup>5</sup> Title 7 Code of Federal Regulations, Part 250.2, dated December 11, 2003.

were a problem and instructed ISBE to place a statewide hold on all applesauce until further testing could be performed. IDPH later discovered that the complaints traced back to one interstate vendor and on March 4, 2004, released the hold on applesauce except for that produced by the one questionable vendor. Since FDA handles cases involving interstate vendors, IDPH forwarded the complaints to the local FDA office for investigation and testing.

An FDA district official validated IDPH's actions, noting that the black layer of film present in the applesauce was a cause for concern and warranted putting the product on hold until further testing could be completed. An FDA National Office official stated that they had learned of the Illinois applesauce complaints from their Chicago district office but were unaware of complaints from other States. He said that knowledge of the additional complaints could be beneficial in determining the cause and extent of the problem.

Since FNS did not have the applesauce distribution information relating to the Illinois complaints, we contacted AMS, the contracting agency, to determine where the applesauce from the questionable vendor had been distributed. AMS determined that the applesauce originated on two different production dates and was shipped to 20 different locations in 11 States.

On March 19, 2004, we reported in a Management Alert that FNS and AMS had concluded that 10 of the 24 applesauce complaints were "isolated instances." Because FNS had not established timeframes for resolving complaints, as of February 26, 2004, it was still awaiting a response from AMS to close the remaining 14 applesauce complaints, which dated back as far as September 12, 2003. An AMS official informed us that the agency was still awaiting vendor responses to resolve those 14 complaints. We also reported that 54 (or 16 percent) of the 346 total complaints logged during this period were related to canning issues such as rust, corrosion, or exploding cans of various products (peaches, pears, etc).

We recommended that FNS take immediate action to notify the 11 State distributing agencies of the potential problem with applesauce, follow up with FDA to determine if the nature of the applesauce complaints poses a health risk, and, if so, place the applesauce on hold. We also recommended that FNS work closely with AMS to resolve existing complaints, and that it establish written procedures for following up on hotline complaints, including:

- Coordination between the hotline complaint team and FNS' Food Safety Unit to assure the review of the hotline complaint log and identification of potential food safety issues for investigation and referral to the regulatory agency;

- Trend analyses of the hotline complaint log to identify recurring complaints, commodities, vendors, and warehouses for follow-up action;
- Guidelines/criteria to place commodities on hold until it is determined they do not pose a risk of illness to recipients or until testing is completed and recommendations are made by the regulatory and contracting agencies; and
- Responsibilities for all involved agencies and timeframes for making recommendations on holds, recalls, and disposition of product.

In its response to the Management Alert, FNS stated that on March 25, 2004, it issued a nationwide advisory on canned applesauce processed by the identified vendor. FNS further stated that FDA had completed testing on the product and found no microbial contamination. However, FDA did find evidence of de-tinning, which rendered the product unfit for human consumption. FNS chose to issue the advisory, rather than put the product on hold, because they determined recipients had already consumed the majority of the product. The advisory recommended that the schools destroy all product that showed evidence of de-tinning. FNS also stated that it was consulting with AMS on ways to shorten the average timeframe for responding to complaints, and that it was working to issue written guidelines to outline FNS and AMS responsibilities and required timeframes for resolution. FNS also said that, in collaboration with FSIS, it was revising the hotline complaint intake form to include triggers that would alert FNS to complaints involving potential food safety issues, for referral to its Food Safety Unit and the regulatory agency.

During May 2004, we followed up on FNS' progress on corrective actions relating to the Management Alert and determined that FNS was working with FSIS to establish written procedures for identifying and addressing food safety complaints. FNS officials stated that they had received additional funding to put the hotline complaint database on the Electronic Commodity Ordering System (ECOS), which would be more conducive to performing trend analyses and identifying food safety issues to refer to its Food Safety Unit.

On July 13, 2004, an FNS official stated that AMS investigated the container manufacturer and found inadequate quality control procedures that resulted in inferior cans sporadically getting through the process. The official said that FNS had contacted FDA, which was following up on the applesauce cans made by this manufacturer.

In conclusion, although FNS had not taken timely and appropriate actions to identify the extent of applesauce complaints submitted to its national hotline from September 2003 through February 2004, FNS responded promptly to our Management Alert to address the immediate concern. Additionally, FNS has initiated actions to develop written procedures to improve the hotline

complaint process so that it can more quickly identify future food safety issues and the extent of complaints.

## **Recommendation No. 1**

Notify the 11 State distributing and corresponding recipient agencies of the potential problem with applesauce.

### **Agency Response.**

The agency agreed and on March 25, 2004, issued a nationwide advisory on canned applesauce processed by the identified vendor. The agency placed an administrative hold on the product. After learning that FDA found no deficiencies in the plant, the agency released the administrative hold on the product.

### **OIG Position.**

We accept FNS' management decision. No further action is needed to achieve Final Action for this recommendation.

## **Recommendation No. 2**

Follow up with FDA to determine if the nature of the applesauce complaints (rust, corrosion, discoloration, and exploding cans) poses a health risk to recipients.

### **Agency Response.**

The agency agreed and said that FDA sampled the product and found no microbial contamination. However, FDA did find evidence of de-tinning, which rendered the product unfit for human consumption. FDA also inspected the identified vendor's plant and found no deficiencies in the plant's operation, equipment, or raw materials.

### **OIG Position.**

We accept FNS' management decision. No further action is needed to achieve Final Action for this recommendation.

### **Recommendation No. 3**

If there is a health risk to recipients, immediately place a hold on applesauce.

#### **Agency Response.**

In its response, dated April 8, 2004, FNS stated that because no health risk was identified from microbiological testing and no deficiencies were found in the vendor's plant, the agency decided to release the hold placed on the applesauce. However, because FDA found evidence of de-tinning, FNS issued a nationwide product advisory, the standard procedure for small quantities of out-of-condition product, on March 25, 2004.

#### **OIG Position.**

We accept FNS' management decision. No further action is needed to achieve Final Action for this recommendation.

### **Recommendation No. 4**

In collaboration with AMS, resolve existing complaints by determining the full extent of the problem(s), implementing additional product holds if necessary, and obtaining appropriate resolution for contaminated commodities.

#### **Agency Response.**

The agency agreed and is consulting with AMS on strategies to shorten the average timeframes for responding to complaints. The agency plans to refine its written guidance on how complaints are handled to more specifically address the responsibilities of FNS and AMS in the process, and to include more specific instructions and timeframes for complaint resolution. The agency expected this guidance to be completed during early summer 2004.

#### **OIG Position.**

Our follow-up in June disclosed that FNS was working with the contractor to develop and implement a complaint component for ECOS, and the agency revised its completion date to October 1, 2004. At our exit conference, FNS officials confirmed that completion will occur by October 7, 2004. Based upon this information, we accept FNS' management decision. For Final Action, FNS needs to complete and implement its new guidance.

## **Recommendation No. 5**

Establish written procedures for: (1) identifying hotline complaints involving potential food safety issues and referring them to the Food Safety Unit and the regulatory agency; (2) performing trend analyses of the hotline complaint log to identify recurring complaints, commodities, vendors, and warehouses for follow-up action; (3) placing commodities on hold until it is determined they do not pose a risk to recipients or until testing is completed and recommendations are made by the regulatory and contracting agencies; and (4) delineating the responsibilities for all agencies involved in the commodity complaint process and timeframes for resolving complaints.

### **Agency Response.**

In its April 8, 2004, response to the Management Alert, the agency agreed and stated that it will develop written procedures to improve its ability to identify and take action on food safety issues. These procedures will include revisions to the complaint hotline intake form; new “trigger” criteria developed in conjunction with FSIS to highlight complaints with potential food safety concerns; and enhancements to the ECOS that will improve FNS’ trend analysis capabilities. FNS has an existing Commodity Hold and Recall Process and is continuing to meet with the regulatory and contracting agencies to refine the procedures. The response also stated that written procedures on responsibilities and timeframes for handling complaints would be completed during early summer 2004.

### **OIG Position.**

Our follow-up disclosed that FNS was working with a contractor to develop and implement the complaint intake screens, and that it had obtained the necessary funding for enhancements to the ECOS, which would allow the agency to more quickly identify complaint trends. As the new procedures directly correspond to these changes, FNS advised us of a new completion date of October 7, 2004. Based upon this information, we accept FNS’ management decision. For Final Action, FNS needs to complete and implement its new guidance.

# General Comments

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FNS has made several changes in the FDP since our previous audit<sup>6</sup> of FNS' controls over donated commodities. First, it has streamlined its ordering process by permitting State distributing agencies to place orders directly on a computerized system. Second, FNS no longer employs recommended storage periods for commodities because of conflicting information from various sources on how long specific commodities can be stored before enduring quality and nutritional loss. And third, in order to reduce costs and improve the timeliness of deliveries, FNS permits vendors to use commercial labels on the donated commodities instead of requiring USDA labels.

Commercial labels do not always contain the pack dates and also make it difficult for recipients to differentiate USDA commodities from commercial products. Therefore, FNS determined that it was also necessary to make regulatory changes at the recipient level. After conducting pilot programs in two States, FNS implemented regulatory changes<sup>7</sup> to allow recipient agencies to use a single inventory for donated and purchased commodities. These regulations removed the requirements that: (1) recipient agencies maintain donated foods separate from inventories of other foods; (2) recipient agencies perform annual physical inventories of storage facilities, report lost, stolen, out-of-condition, or excessive commodities, and take corrective actions on these findings; (3) recipient agencies do not maintain excessive inventories; and (4) recipient agencies maintain records of receipt, distribution, disposal, and inventory of commodities.

Although we had concerns over the removal of these controls, our review at 12 warehouses in three States in the Midwest, Western, and Southwest regions, did not disclose widespread problems with storage conditions or aged product in the storage facilities that we visited.

At the Illinois State-contracted warehouse, we did not find any significant amounts of aged commodities in storage, as had been reported in the previous audit. We also found that the warehouse had replaced deficient freezer units that had led to inadequate freezer temperatures. At the Chicago Public Schools (CPS) office, an official stated that CPS had improved its controls over donated commodities to correct the problems identified in the previous audit. For example, CPS no longer maintains its own dry storage facility and no longer contracts with a cold storage facility, where sanitation deficiencies had been identified. CPS also established additional controls, such as performing quarterly physical

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<sup>6</sup> Audit No. 27601-0019-CH, National School Lunch Program and School Breakfast Program Controls Over USDA-Donated Commodities, dated September 1999

<sup>7</sup> Title 7 Code of Federal Regulations, Part 250 Final Rule, dated October 23, 2002.

inventories at the Food Service Management Company (FSMC) warehouses to ensure that it gets proper credit for donated commodities used in the NSLP. As a result, our review at two of CPS' FSMC warehouses did not disclose any significant findings.

However, we found instances of aged commodities at four warehouses in three States (including one State-contracted warehouse, one cooperative-contracted warehouse and two food banks). To determine that the commodities were aged, we obtained the storage periods recommended by three different agencies—FSIS, FDA, and the “Best If Used By” (BIUB) dates developed by Department of Defense and formerly used by FNS. We used the maximum number of months recommended by these three sources as a guideline. We found the following instances of aged product in 4 of the 12 warehouses included in the audit, each of which occurred for a different reason.

1. The Illinois State Board of Education did not take timely actions to menu out or transfer 2,200 pounds of beef roasts that a school ordered but no longer wanted. As a result the beef roasts, valued at over \$3,700, were stored at the State-contracted warehouse for over 23 months, or 11 months beyond the recommended storage period, before the State distributing agency transferred them to a food bank.
2. Two Texas food banks under the Texas Department of Human Services received 78,624 pounds of aged strawberries, valued at over \$49,500, through the surplus removal program, without any prior notification from FNS. The strawberries were 19 months old, or 4 months beyond FNS' former BIUB standard of 15 months, at the time of receipt. FNS policy<sup>8</sup> stated that FNS would notify recipients when they would be receiving product packed an abnormally long time before shipment. An FNS official said that the notification is normally included in the surveys sent to the States to obtain the State's order. However, in this instance FNS did not know the age of the commodities at the time of the survey. FNS officials provided documentation that FNS had made such notifications in two other similar instances. The Texas Department of Human Services was concerned over the aged commodities, but it was unaware of FNS' policy<sup>9</sup> that recommends recipients submit questionable commodities for testing.
3. Ten school food authorities (SFA) that belonged to the Super Co-Op in Los Angeles, California, failed to menu out commodities

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<sup>8</sup> USDA, FNS Policy Memorandum, “Product Packed an Abnormally Long Time Before Shipment,” dated June 25 2001.

<sup>9</sup> FNS Policy Memorandum (unnumbered), Subject: Testing of Commodities Held in Storage, dated September 27, 2000.



before they became aged, even though each school was responsible for monitoring the age of its inventory. Since FNS defines a cooperative as a recipient agency, they are permitted to use single inventories and are not required to report excessive or out-of-condition commodities to FNS or the State distributing agency. As a result, 7,280 pounds of turkey breasts, valued at \$10,338, and 3,408 pounds of mozzarella cheese, valued at \$5,725, were stored for over twice the recommended storage periods.

We also found that 57,660 pounds of peanut butter and oats, valued at \$29,800, had been on hold for over 9 months at the Illinois State-contracted warehouse. The products were on hold because of potential contamination from a warehouse fire. The State distributing agency followed the instruction of the State health department to have the product tested. During our review in May 2004, we questioned ISBE and warehouse management to determine why the commodities were on hold for over 9 months. The warehouse management stated that they had trouble finding a laboratory that could perform the required testing. After further OIG inquiries, ISBE officials took actions to have the product tested and learned that there was no contamination. An ISBE official stated that they would transfer the commodities and bill the warehouse for the loss. Neither the State distributing agency nor the FNS regional office had established timeframes for completing the testing, or ensured that timely actions were taken.

In conclusion, we determined that FNS had generally corrected the weaknesses identified in the previous OIG audit in Illinois and California.

# ***Scope and Methodology***

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We performed audit work at FNS Headquarters in Alexandria, VA; FNS Regional Offices in Chicago, IL, San Francisco, CA, and Dallas, TX; the Illinois State Board of Education; Chicago Public Schools; the California Department of Education; the Texas Department of Human Services; food banks in Dallas, Houston, Austin, and Fort Worth, Texas; the Los Angeles Unified School District; and the Fresno School District. We reviewed the Child Nutrition Program in Illinois and California, and The Emergency Food Assistance Program in Texas.

We judgmentally selected California and Illinois to follow up on prior audit recommendations. These States received over \$136 million of the \$975 million in donated commodities allocated to the Child Nutrition Program. We also judgmentally selected Texas because it received over \$33 million of the \$372 million in donated commodities allocated to TEFAP. Our fieldwork included reviews of 12 warehouses in the three States for school year 2004 (July 1, 2003, through June 30, 2004). See Exhibit A for a listing of warehouses visited.

In selecting commodities for review at each site, we ensured that the sample included commodities from dry, refrigerated, and frozen storage.

To accomplish our objectives we performed the following procedures:

- Identified and reviewed FNS' policies and procedures governing USDA-donated commodities.
- Interviewed FNS National and regional officials, State agency officials in California, Illinois, and Texas, officials of the Chicago Public Schools, and commercial warehouse management.
- Identified and evaluated FNS' controls over the handling, storage, and use of USDA-donated commodities.
- Followed up on FNS' final action on recommendations from Audit No. 27601-0019-CH.
- Identified and evaluated the State agencies' procedures over distribution, storage, and handling of USDA-donated commodities, and determined whether they were in accordance with Federal regulations, and whether they were adequate to ensure the quality and wholesomeness of the USDA-donated commodities.
- Evaluated warehouse use of First-In-First-Out (FIFO) method of distribution through a review of shipping and receiving records.

- Reconciled physical inventories of sampled commodities with warehouse perpetual inventory records and State agency records.
- Reviewed pest control reports, State and local health inspection reports, and warehouse temperature logs.

This audit was performed in accordance with generally accepted Government Auditing Standards. The audit work was conducted from December 2003 through July 2004.

## ***Exhibit A - Warehouses Visited***

Exhibit A – Page 1 of 1

<b>Warehouse Name</b>	<b>Warehouse Location</b>
Lanter Company – State-contracted Warehouse	Granite City, IL
Interstate Warehousing <sup>10</sup>	Joliet, IL
U. S. Foodservice <sup>10</sup>	Glendale Heights, IL
Sacramento State Warehouse	Sacramento, CA
Pomona State Warehouse	Pomona, CA
Fresno Unified School District	Fresno, CA
Los Angeles Unified School District	Los Angeles, CA
Gold Star Foods - Super Co-Op Warehouse	Los Angeles, CA
Houston Food Bank	Houston, TX
North Texas Food Bank	Dallas, TX
Capital Area Food Bank	Austin, TX
Tarrant Area Food Bank	Fort Worth, TX

<sup>10</sup> U.S.Foodservice and Interstate Warehousing contract with CPS' FSMC, Chartwells for storage of USDA-donated commodities.

# Exhibit B - FNS Response to Management Alert

Exhibit B – Page 1 of 3



APR 8 2004

United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

3101 Park  
Center Drive

Alexandria, VA  
22302-1500

**SUBJECT:** Controls Over USDA-Donated Commodities

**TO:** Robert W. Young  
Assistant Inspector General for Audit  
Office of Inspector General

This is in reference to your Management Alert dated March 19, 2004, addressing Audit No. 27601-0033-Ch(1). We have the following responses to your recommendations:

**OIG Recommendation 1:** Notify the 11 State distributing and corresponding recipient agencies of the potential problem with applesauce.

**FNS Response:** On March 25, 2004, the Food and Nutrition Service (FNS) issued a nationwide Advisory on canned applesauce from the Knouse Company having a pack date of August/September 2003. The Food and Drug Administration (FDA) sampled the product from this pack date; results indicated no microbial contamination. However, the samples did exhibit evidence of de-tinning which renders the product unfit for food. The Advisory recommends that any cans still held by States/schools showing evidence of this problem be destroyed. It also instructs recipient agencies to follow established procedures for destroying out-of-condition product. FNS will replace or provide credit for destroyed product. No illness has been associated with this product.

The Illinois State Distributing Agency made the decision to hold an additional truckload of Knouse applesauce with a February 2004 pack date. This product is not from the same production run as the product that FDA tested. There was no reason to believe there were any problems with this applesauce. No additional complaints have been received and no illness has been reported. However, in response to the Illinois agency hold, FNS placed an administrative hold on all applesauce from this contract on March 24, 2004. After reviewing additional information and learning that FDA had inspected the Knouse plant during the month of March and found no deficiencies in the plant's operation, equipment, or raw materials, FNS released the administrative hold on this product effective March 26, 2004.

**OIG Recommendation 2:** Follow up with FDA to determine if the nature of the applesauce complaints poses a health risk to recipients.

**FNS Response:** See response to Recommendation 1.

**OIG Recommendation 3:** If there is a health risk to recipients, immediately place a hold on applesauce.

**FNS Response:** There was no health risk identified from microbiological testing. The product exhibited de-tinning which renders it unfit for food. Rather than initiate a

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product hold, FNS issued a product Advisory which is the standard procedure for handling small quantities of out-of-condition product.

**OIG Recommendation 4:** Work closely with AMS to resolve existing complaints, determine the full extent of the problem(s), implement additional product holds if necessary, and obtain appropriate resolution for contaminated commodities.

**FNS Response:** FNS works closely with the Agricultural Marketing Service (AMS) to address all issues related to quality and safety of United States Department of Agriculture (USDA) commodities. We are consulting with AMS on strategies to shorten the average timeframes for responding to complaints. We plan to refine our written guidance on how complaints are handled to more specifically address the responsibilities of FNS and AMS in the process, and to include more specific instructions and timeframes for complaint resolution. We expect this guidance to be completed during early Summer 2004.

We will also continue to work on refining our Hold and Recall Procedures, as necessary, and implement product holds and recalls as needed to ensure questionable commodities are not used. Please keep in mind that a General Accounting Office Report to Congress dated May 2003 found that foodborne outbreaks of all types in schools were relatively rare, accounting for only three percent of the total outbreaks that were reported nationwide between 1990 and 1999.

**OIG Recommendations 5(a):** Establish written procedures for following up on hotline complaints, including: coordination between hotline complaint team and the Food Safety Unit to assure the review of the hotline complaint log and identification of potential food safety issues for investigation and referral to the regulatory agency.

**FNS Response:** We are revising the complaint hotline intake form. This form is used to alert the FNS hotline complaint team of potential food safety problems that need to be forwarded to the FNS Food Safety Unit. As part of this effort, the Food Safety Unit is collaborating with the Food Safety and Inspection Service (FSIS) to develop criteria that can serve as a “trigger” to signal to the hotline complaint team that a potential food safety problem exists which needs to be forwarded to the Food Safety Unit. Follow-up meetings with FSIS on this effort are scheduled for late April 2004. Our estimated completion time for the revised complaint hotline intake form is May 2004.

**OIG Recommendations 5(b):** Establish written procedures for following up on hotline complaints, including: trend analysis of the hotline complaint log to identify recurring complaints, commodities, vendors, and warehouses for follow up action.

**FNS Response:** We are currently pursuing Departmental funding that would allow us to add an enhancement to FNS’ newly implemented Internet-based Electronic Commodity Ordering System (ECOS). This enhancement would permit FNS to electronically analyze complaint trends. This would replace the partly manual system of trends analysis that FNS currently uses, and allow for quick identification of complaint trends by commodity product, by vendor, and by warehouse at the State level. Written procedures

will be developed concurrent with implementation of this ECOS enhancement. In the meantime, FNS will address its current system of trend analysis in the complaint guidance discussed in our response to Recommendation 4.

**OIG Recommendations 5(c):** Establish written procedures for following up on hotline complaints, including: establishment of guidelines/criteria to place commodities on hold until it is determined they do not pose a risk of illness to recipients or until testing is completed and recommendations are made by the regulatory and contracting agencies.

**FNS Response:** The FNS commodity Hold and Recall Process was finalized in writing in July 12, 2001, and has been successfully used since then. The process addresses: 1) the decision and notification process; 2) product disposition; and, 3) commodity reimbursement/replacement. This document is attached. FNS continues to meet with FDA, FSIS, AMS, and the Farm Service Agency on a periodic basis to refine commodity Hold and Recall Procedures as necessary and strengthen food safety partnerships.

**OIG Recommendations 5(d):** Establish written procedures for following up on hotline complaints, including: delineate responsibilities for all involved agencies and timeframes for making recommendations on holds, recalls, and disposition of product.

**FNS Response:** Written procedures on responsibilities and timeframes for complaints will be outlined in the complaint guidance discussed in our response to Recommendation 4. Responsibilities and timeframes for holds and recalls are outlined in the attached Hold and Recall Process document. Expanded dialogue between FNS, FDA, and FSIS regarding roles, points of contact and notification mechanisms was initiated following the creation of the FNS Food Safety Unit in December 2003, and continues on an on-going basis. The next periodic meeting between FNS, FDA, and FSIS on the Hold and Recall Process is scheduled to be held this month.

We look forward to working with you as we continue efforts to ensure that our commodities remain nutritious, healthy, and safe.



Roberto Salazar  
Administrator

Attachment

Informational copies of this report have been distributed to:

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