



October 27, 1982

Washington, D.C. 20201

TO : Jim Cicconi
Special Assistant to the President

CC : Craig Fuller
Assistant to the President for Cabinet Affairs

FROM : David Newhall III *[Signature]*
Chief of Staff

SUBJECT : Possible Presidential Announcement 10/27 in New Mexico

In response to your request last evening I have confirmed (Tab A) that HHS and DoD have agreed this week to implement in New Mexico a pilot project which will distribute through 14 food bank distribution centers surplus food from the Kirkland Air Force Base Commissary.

This would represent a totally volunteer effort with no federal program dollars or staff.

We believe the President could announce this Thursday, provided it is understood that before implementation DoD must secure the approval of food producers. Such approval is expected, in part because of tax incentives.

However, in considering whether to recommend a Presidential announcement, staff should review a feature article in yesterday's Wall Street Journal (Tab B) which aired some criticisms of Second Harvest, a large national umbrella food bank. A preliminary HHS check does not indicate any connection between Second Harvest and the Roadrunner Food Bank which will operate the New Mexico pilot.

If the New Mexico pilot proves successful, we would anticipate additional distribution of surplus foods from DoD commissaries. As you know, Mrs. Baker and several Cabinet wives have expressed interest in this HHS initiative.

October 27, 1982

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MEMORANDUM TO THE CHIEF OF STAFF

THROUGH: DES _____

FROM: Philip Link *Phil*
Policy Coordinator OS/ES

SUBJECT: Food Bank Project -- Albuquerque, New Mexico

As you know, we entered into discussions with the Department of Defense (DoD) in June concerning the availability of surplus food in DoD commissaries. Despite some delays and bureaucratic obstacles, the Office of Community Services (OCS) and DoD staff completed this week a site visit of the commissary at Kirkland Air Force Base in Albuquerque, New Mexico. The staff agree that there is surplus food at Kirkland, and DoD is prepared to make it available to the Roadrunner Food Bank. This food bank operates 14 food distribution centers throughout New Mexico. OCS staff estimate that the amount of surplus available could potentially feed several hundred people each month.

In the past, surplus food at Kirkland, as at all other commissaries, was either destroyed or returned to the food producer, e.g., General Mills. Food producers, in turn, either destroyed the food themselves or had their own procedures for distributing the excess.

The Roadrunner Food Bank is prepared to come to Kirkland twice a week to pick up any surplus food and distribute it to local charities throughout New Mexico. This would represent a totally volunteer effort with no Federal program dollars or staff. The only obstacle to immediate implementation is that DoD must secure the approval of the food producers before it can release food to local food banks. However, DoD staff do not believe this will present a problem, since the food producers would receive tax benefits for any food they donate.

The DoD and OCS staff will be submitting their reports and the agreements they reached to their respective Secretaries. They will recommend some form of interagency agreement which would expand this pilot effort throughout the DoD commissary system.

I have discussed this initiative with Dr. Harvey Vieth and we see no reason why the President could not announce this pilot project in Albuquerque. There are a number of technical details remaining to be worked out, however, we have reached a basic agreement with DoD and I see no reason not to proceed.

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TAB B

Wall St. Jnl.; 10-25-82

Bitter Harvest**Charity That Delivers
Surplus Food to Needy
Is Split by Accusations****Food Bank's Founder Asserts
New Director Is Letting
Big Companies Control It****Chief Critic Becomes Leader**

By JEFFREY H. BIENBAUM

Staff Reporter of THE WALL STREET JOURNAL
PHOENIX, Ariz.—By most standards, Second Harvest has been a raging success.

From its humble beginnings here in 1967 as a church-affiliated distributor of surplus food to the needy, it has grown into a nationwide network of 43 warehouses, called food banks. Now federally financed, Second Harvest this year expects to give out 30 million pounds of free food, double last year's total.

The bounty, eagerly donated by a growing list of major corporations, is wholesome food that otherwise would be discarded, often because of its appearance. Food banks are being praised for helping to fill the gap as federal aid to the poor is cut back. Some backers even see the Second Harvest network and the nation's 20 or so other food banks as a substitute for food stamps.

While stopping short of that idea, the White House conveyed its blessing March 1 by honoring the group's charismatic founder, 59-year-old John van Hengel, at a coffee given by cabinet officers' wives.

Bitter Harvest

But Second Harvest these days is reaping bitterness along with its success. A schism has developed on its board of directors, and the leadership has been replaced amid charges that the big food processors are wielding undue influence in order to control more tightly the distribution of their surplus products and ensure the resulting tax benefits. The Federal Bureau of Investigation, moreover, is studying allegations of conflict of interest at Second Harvest.

The problems came to a head just four days after the White House fete for Mr. van Hengel. At a board meeting here, Mr. van Hengel, a longtime aide and the three Phoenix directors of Second Harvest walked out, vowing never to return.

The white-haired Mr. van Hengel, who had been removed as executive director and named to the ceremonial post of president six months earlier, made a dramatic speech to the board accusing the new leaders of caving in to food-industry pressures and implying that they lack integrity.

After a stunned silence, a remaining board member, the Rev. Patrick Tobin of Kansas City, offered a prayer. "We asked for guidance for all concerned," he recalls. "The old and the new regimes had a parting of the ways."

Federal Agency's Study

Adding to the van Hengel faction's feelings of alienation was the process that led to his demotion. It began in mid-1981 with a study of Second Harvest by the Community Service Administration, the now-defunct anti-poverty agency. The federal agency had helped expand the food-bank organization with grants totaling \$1.4 million since its inception, and a panel of four agency employees was given the job of assessing Second

Harvest's performance.

That study ultimately accused Mr. van Hengel of shoddy management, and it recommended that further federal financing be made contingent on his ouster. Three months after Mr. van Hengel's demotion, the man who headed the CSA study team, Jack Ramsey, was named Second Harvest's executive director, replacing an interim manager.

The appointment, says Frank Titzler, the former controller of the organization, "was like a bomb being dropped on Phoenix." The van Hengel faction, composed mostly of local volunteers, considers Mr. Ramsey's appointment part of a plot by food manufacturers to control Second Harvest. By controlling the operation, they say, the corporations could expand the network more rapidly than is prudent and take public credit for its good works.

By exerting their control, this criticism goes, the corporations can also make certain that they get the needed documents to claim tax benefits for their donated products and prevent the embarrassment of having donated products resold commercially.

Corporations' Response

The corporate contributors deny they have either taken over or spoiled the network. Instead, they say Second Harvest now is getting the professional management it needs to serve more needy people better. They also say they were sorry to see Mr. van Hengel go.

Whatever the merits of the new management, allegations of conflicts of interest at Second Harvest earlier this year reached the Department of Health and Human Services in Washington, which last year took over financing of the group from the CSA. After a preliminary review, the complaints were sent on June 2 to the FBI office here, which confirms that it is investigating. The investigation is known to involve several individuals, including Mr. Ramsey.

Second Harvest's chairman, John Driggs, defends Mr. Ramsey as the best man for the job, although he concedes there might be an "appearance" of conflict. "You can't say, hey, there's nothing in there for anybody to raise their eyebrows about." But Mr. Driggs, the chairman of Western Savings & Loan Association and a former mayor of Phoenix adds, "Our judgment was that the possibility (of conflict) shouldn't preclude his application." Several applicants for the job were interviewed, he says.

The 47-year-old Mr. Ramsey denies that he aspired to work at Second Harvest when he and the other CSA employees researched their report last summer. He says he was surprised, though, at the lack of concern among Second Harvest board members. "Once I applied, I thought I'd get somebody saying something to me," he says, "but nobody even called. It was just an incredible silence."

The silence didn't last. A cadre of Phoenix residents loyal to Mr. van Hengel formed the "Phoenix Committee to Save Second Harvest" and met several times with Mr. Driggs to complain about Mr. Ramsey. They assert not only that Mr. Ramsey connived to displace Mr. van Hengel but also that he did so in collusion with major corporations that were intent on bending Second Harvest to their will.

"In my opinion, the worst mistake we ever made was inviting corporations onto the board," says Robert McCarty, who was Mr. van Hengel's chief assistant. "They took over. Ramsey is just a tool, just a pawn. Second Harvest has become a big-business bureaucracy."

The angry Phoenixians cite several incidents to buttress their conspiracy theory. The day after the CSA closed shop Sept. 30, 1981, Mr. Ramsey started working for Second Harvest as an expenses-only consultant to write a plan to help solicit financial con-

tributions from corporations. Mr. Ramsey says he got the one-month assignment after calling Barbara Knuckles, the community- and consumer-relations manager of Beatrice Foods Co. in Chicago and a member of Second Harvest's executive committee. Mr. Ramsey says he phoned Sept. 17, nearly two weeks before he left the CSA, to say, "Barbara, I'm available." (Mrs. Knuckles says Mr. Ramsey called during an executive-committee meeting, and she happened to answer the telephone.)

Phoenix Faction

Mr. Ramsey, whom some former Second Harvest staffers derisively called "J.R." after the devious "Dallas" TV character J.R. Ewing, made the local help feel unwelcome. At an early staff meeting, the new executive director said he hoped to move Second Harvest out of Phoenix to the Washington, D.C., area, his home at the time, former staffers say. (A proposal to move the headquarters is still being considered by the board.) The former employees also say (and Mr. Ramsey denies) that Mr. Ramsey tried to cancel scheduled raises for Messrs. McCarty and van Hengel. The pay raises did go through, in any case, bringing each man up to about \$24,000 a year. Mr. Ramsey is paid \$41,000.

Former CSA employees say they can't remember any assessment report besides Second Harvest's that recommended the removal of an administrator. And at least one member of the team that wrote the report now believes that the precedent was set for underhanded reasons.

"The entire assessment now seems tainted since Mr. Ramsey accepted the position of executive director of Second Harvest," wrote Albert A. Fusco, now retired, in a Feb. 8 Mailgram to Mr. McCarty. "It appears to me that he used the assessment to get Mr. van Hengel (sic) fired and hopefully to get himself hired as executive director."

But the food-industry representatives on Second Harvest's board say they were as surprised as the staff when Mr. Ramsey applied for the job. Furthermore, says Mrs. Knuckles, the corporations couldn't have assured Mr. Ramsey's appointment even if they had wanted to. The food industry holds only five of 17 board seats. (Four seats are vacant.) The dissidents note, however, that the industry holds considerably more sway in the powerful executive committee, possessing three of the six seats, including the chairmanship. Also, Mr. Driggs, Second Harvest's chairman, is an ex-officio member of the committee.

In addition to Beatrice, the industry organizations represented on the board are the Kraft Inc. division of Dart & Kraft Inc., the CPC North America division of CPC International Inc. and the Grocery Manufacturers of America. A representative of the Food Marketing Institute was named a new member this fall.

Praise for Ramsey

The industry members praise Mr. Ramsey for tightening Second Harvest's operations. Following most of the recommendations in his report, Mr. Ramsey codified many practices and imposed additional standards on the food banks. "We had to convince the major corporations that their contributions wouldn't be abused," says G. Richard Johnson, a retired divisional officer of CPC International and chairman of Second Harvest's executive committee. "We are confident now we have viable, strong controls."

Officials at several Second Harvest food banks also appreciate the toughened rules. Harlow "Bill" Donovan, the director of the Food Crisis Network, the St. Louis food bank, believes rigorous record keeping is essential to sustain the explosive growth he sees for the network in the next three to five

years. And June Tancue, the director of the Portland, Ore., food bank, concludes: "John van Hengel didn't have the administrative skills that Ramsey has brought to the organization."

Slipshod management under Mr. van Hengel is a recurring theme in the CSA's 52-page report. It says that Second Harvest lacked uniform standards for food banks, was bereft of a coherent direction and was organized in a "mystical" and "laissez-faire" fashion. Former staffers say the gregarious Mr. van Hengel was wont to leave the office in the afternoons to swim or play golf.

Van Hengel's Defense

Mr. van Hengel concedes that he and his colleagues lacked a flair for management. But they had designed it that way. "I resent the system, I think it's wasteful," Mr. Van Hengel says. "You must have structure, but structure must develop. You must let the water flow."

The importance of structure is demonstrated by the enormity of some recent contributions. Earlier this year Kellogg Co. of Battle Creek, Mich., gave Second Harvest 37 railroad-car loads, or 107,000 cases of Nutri-Grain cereal, when the company decided to discontinue two flavors, barley and rye, which weren't selling well enough. Instead of reselling the leftover grains at a deep discount, the company chose to process the grain into cereal and give it to a single, reliable charity. "We didn't have time to check

out every little agency in the world," a spokesman says.

Beatrice Foods also chose Second Harvest when its Tropicana division recently found itself with 2.4 million quart bottles of tan, though perfectly drinkable, grapefruit juice. The discolored liquid, the victim of premature exposure to air, would either have been scrapped or sold abroad, because Americans prefer their grapefruit juice yellow. Beatrice, like other manufacturers, chose Second Harvest because it was convinced that the surplus wouldn't emerge in the commercial marketplace. "They are soft-hearted, but not soft-headed," says Marion Sheslow, the contributions director for Nabisco Brands Inc., another frequent contributor to Second Harvest.

Giving food to Second Harvest isn't completely philanthropic, however. Companies can deduct from taxable income the cost of producing the donated products plus half of the difference between the cost and the fair market value of the product. Though some companies say the value of surplus is often less than the cost, Beatrice has taken about \$100,000 in deductions above the cost for the eight million pounds of food it donated in the fiscal years that ended Feb. 28, 1981 and 1982.

Humble Beginnings

All of this is a far cry from Second Harvest's humble beginnings here. In the early 1960s, Mr. van Hengel, a retired California advertising man, drove his own truck to collect surplus food, such as dented cans and day-old bread, from local supermarkets for a skid-row soup kitchen run by Mr. McCarty. Soon collections outpaced need, and the overflow was given to other charities. In 1967, the idea grew into a full-fledged food clearinghouse associated with St. Mary's Catholic Church—a kind of United Way for food.

Word of success at St. Mary's food bank reached Washington, and the CSA offered the group a grant in 1975 to develop food banks elsewhere. The money was refused because Mr. van Hengel wanted nothing to do with bureaucracy. But the next year the agency threatened to pay someone else to spread the concept. Mr. van Hengel says, and he felt compelled to accept in order to protect his vision.

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Food banks now are located from the two-stoplight town of Gassaway, W. Va., to Santa Clara, Calif., which boasts an army of volunteers that glean fields for vegetables left unpicked after harvest. More than 50 major corporations distribute their remainders through Second Harvest, while hundreds of smaller companies give directly to their local food banks. Second Harvest's goal is to establish a network food bank in every city with a population of at least 300,000.

Mr. van Hengel, meantime, is continuing his fight, along with Mr. McCarty, his former assistant at Second Harvest. (Mr. McCarty now is executive director of the St. Mary's food bank, which has withdrawn from Second Harvest.) They are struggling to organize a group called Foodbanking Inc. to instruct communities how to start up food banks. "We're grass-roots organizers, that's all," says the bearded Mr. McCarty. "The job of building food banks is only half done in the U.S."



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

FEB 23 1982

JAB NOTE

f HHS
memo

MEMORANDUM TO: THE HONORABLE JAMES A. BAKER, III
Chief of Staff

FROM: Richard S. Schweiker
Secretary

RE: Social Security Legislative Proposals

On Wednesday, February 24, 1982, I will be testifying before the full House Ways and Means Committee on the Department's fiscal year 1983 budget proposals.

I am prepared to discuss four social security proposals that affect administrative savings in Old Age Survivors Disability Insurance (OASDI). These proposals, which were cleared by OMB, are contained in the President's fiscal year 1983 budget which was recently sent to the Congress. The proposals do not reflect any reductions in benefit levels. Furthermore, the proposals are not part of any separate OASDI legislative program, but are contained in the Social Welfare legislative package.

There clearly are administrative savings associated with these proposals which are reflected in budget totals. However, I am mindful of our previous discussion that no Title II (Social Security) legislative proposals go forward prior to the report of the National Commission.

Therefore, I wanted to bring this matter to your attention. If you have any concerns about our bringing these before the Congress, please let me know.

A summary of the proposals is attached for your review.

Attachment

Rich Schweiker

SSI/OASDI

We have also included certain proposals that will affect administration of the OASDI program of Social Security benefits as well as the SSI program. These proposals are intended primarily

to facilitate program administration and improve or maintain program integrity without basically changing SSI or Social Security benefit provisions.

Several of these proposals were suggested last fall and, although the anticipated savings were reflected in the current continuing resolution, we have neither authorizing legislation nor waiver language to carry them out. For FY 1983, we are seeking the appropriate legislative changes.

Cross-program recovery of overpayments. Under this proposal, overpayments in the SSI, Social Security, or Black Lung Part B programs that were uncollectible under the program in question--usually because entitlement has ended--could be collected by withholding payments under another SSA-administered program. The major effect of this proposal is expected to be the recovery of SSI overpayments from Social Security benefits and savings of about \$16 million in FY 1983--primarily in SSI--are expected.

Medical evidence and denial notices. Two additional SSI/OASDI proposals that are included in our current budget and in our proposed Social Welfare Amendments of 1982 relate to payment for medical evidence and personalized disability denial notices.

- Payment for medical evidence of record would be specifically authorized under the SSI program-- in Title XVI of the Social Security Act--and the requirement for such payment would be deleted from the Social Security disability insurance program. Under the disability insurance program, payment for evidence has not improved the quality of the medical evidence as expected. Also, the disability insurance funds required to be expended for this purpose under the 1980 Disability Amendments are not well targeted and frequently replace available private funds of claimants. In contrast, in SSI, where there is a clear need for such payment by the Federal Government, the payment is made pursuant to general legislative intent and historical precedent. This proposal will reduce costs by about \$11.4 million in FY '83.
- Also, the provision specifically requiring the furnishing of highly detailed explanations of denials of Social Security and SSI disability benefits would be repealed. This procedure continues to be time consuming and labor intensive and does not appear to be leading to improved understanding or acceptance of disability denials on the part of claimants or the public generally. The elimination of this activity is expected to save about \$31 million in FY 1983.

Attorneys Fees. In Social Security and SSI cases we not only have authority to set maximum fees where a claimant is represented in proceedings before SSA, but, where the claimant is successful, we also set individual fees and, in Social Security cases, withhold the fee from back benefits due the claimant. Under this proposal, we would no longer set individual fees nor withhold part of the past due benefits. The present fee-setting provisions are proving increasingly burdensome for us to administer; they divert SSA's manpower resources from reducing heavy workloads and claims processing times. The objective sought by the fee-setting provision can be achieved through our authority to set maximum fees.

This proposal, which saves about \$7 million in FY 1983, is included in our 1983 budget, together with appropriate waiver language for use in the appropriations process. We also urge consideration of this change by this Committee and will be glad to provide whatever technical assistance you would find helpful.

Thirty-Five Percent Preeffectuation Review. Another proposal in our budget submission would modify the present requirement that we move from the current 35-percent level of preeffectuation review of allowances of disability insurance benefits to a 65-percent review in 1983. As required by the conferees on the 1980 disability amendments, I reported to the Congress last fall on the cost-effectiveness of the preeffectuation review process and the appropriateness of going to a 65 percent level in 1983. A copy of that report is attached.

In short, we found that while preeffectuation review has been highly cost effective, and the 35-percent level for this year may be very sound, a shift to 65-percent next year would not be as cost effective as a 35-percent review and, indeed, might not be cost effective at all. There are several reasons for this. For one, SSA is targeting the reviews so that the most error prone cases are already reviewed. Also an increase to 65 percent would require a substantial increase in staffing and the use of relatively untrained--and therefore less productive--personnel in carrying out the reviews. The administrative costs associated with moving to 65 percent review would be about \$9.5 million in FY 1983.

We proposed last year, and we propose now, that we not increase the level of preeffectuation review until we have further experience at the current level and evidence that an increase is desirable. Again, although this proposal has not been resubmitted in legislative language in our proposed Social Welfare Amendments bill, we urge you to consider this proposal favorably and we stand ready to provide any technical assistance you may require.