

Complaint to USDA's Office of the Inspector General Regarding DMI's Financial Excesses

**The
Milkweed**

Dairy's best information and insights

Established June of 1979



"Float like a butterfly,
sting like a bee."

— Muhammad Ali

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Publisher

USDA, Office of the Inspector General
United States Department of Agriculture
Room 117-W Jamie Whitten Bldg.
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Attn: Subscribers of The Milkweed

If you are incensed by the wasteful financial compensation received by executives at Dairy Management, Inc. and agree that USDA's Office of the Inspector should investigate such excesses, please contact OIG and your Congressional representatives. USDA/OIG's address appears on this page. Other contact information:

Phone: 202-720-3306 (Office of Investigations)

Email: public-affairs@oig.usda.gov

Dear USDA Office of the Inspector General,

This letter constitutes a formal complaint to your office regarding potential financial irregularities involving Dairy Management, Inc. (DMI). DMI — based in Rosemont, Illinois — is a Qualified Program that receives over \$100 million annually in dairy producers' checkoff revenues through the National Dairy Promotion and Research Board (NDPRB). USDA's Agricultural Marketing Service oversees the NDPRB.

DMI is the single largest Qualified Program using dairy promotion checkoff revenues for programming. DMI is chartered as a nonprofit.

As defined in the enabling 1983 Act, Congress' mandate regarding use of NDPRB funds is specific:

"... carrying out a coordinated program of promotion designed to strengthen the dairy industry's position in the marketplace and to maintain and expand domestic and foreign markets and uses for fluid milk and dairy."

This complaint is intended to alert USDA/OIG's attention to apparent, wide-ranging financial irregularities involving DMI. These financial irregularities include overtly huge annual compensation packages received by DMI executives, as well as use of over \$22 million of dairy checkoff funds to subsidize a failing pension program for DMI executives and employees at other Qualified Programs. Data supporting these allegations are derived from annual IRS Form 990 documents filed by DMI and DMI's 2021 financial audit.

Examples of financial irregularities at DMI include:

Excessive salaries & benefits, in violation of IRS rules.

Several DMI executives have during the past dozen years enjoyed annual compensation packages totaling around or above \$1 million. Those annual compensations include salaries, retirement benefits, non-taxable benefits, and bonuses. IRS rules specify that non-profit organizations' executives' compensation must be in line with those of similar organizations.

• Thomas Gallagher, former DMI CEO, retired in 2021. That year, his total compensation package from DMI totaled \$2,680,255. Broken down by category, Gallagher's 2021 total compensation included:

Base Compensation: \$612,504

Bonus & Incentive Compensation: \$418,000

Other Reportable Income: \$731,601

Retirement & Other Deferred

Compensation: \$1,302,769

Nontaxable Benefits: \$15,471

Total: \$2,680,255

DMI's IRS Form for 2021 notes that nothing listed for Gallagher's compensation was carried over from prior years. An article in the Milwaukee *Journal Sentinel* noted that Gallagher's 2021 compensation was dramatically ballooned by a deal he had signed many years prior with DMI. Regardless of whatever deal may have been contracted prior to his retirement, it is clear that Gallagher's 2021 total compensation as DMI's CEO of \$2,680,255 was far in excess of any similar non-profit organizations — specifically, for non-profit commodity promotions administered by USDA's Agricultural Marketing Service.

• Excessive Retirement and Deferred Compensation

In 2010, DMI executive Jeanette Temple received \$572,092 in retirement and deferred compensation — the single largest item in her total compensation from DMI that year which totaled \$1,008,790 for that year. Ms. Temple worked at DMI for only 10 months in 2010, before departing.

In 2010, DMI's vice president Julian Toney enjoyed retirement and deferred compensation totaling \$483,883 — the single largest item in his total compensation of \$952,033 in 2010.

In 2010, DMI's retirement and deferred compensation largess extended to its top eight executives. Including Temple and Toney, DMI's top eight executives averaged retirement and deferred compensation totaling \$263,057 in 2010.

(Important to note: 2010 was one of the worst years financially for U.S. dairy farmers since the Great Depression. Funds that might have been better spent promoting sales of dairy products were in fact used to fatten DMI executives' retirements.)

Even today, DMI's executives enjoy retirement compensation at approximately *double the rate as USDA's retirement compensation for its employees*.

I urge the Office of the Inspector General to review the past 15 years of DMI's IRS Form 990 compensation reports for DMI's executives for a historic perspective on that Qualified Program's financial largesse for its executives. Over those years, DMI's financial largesse to its top executives' annual compensation packages included obviously excessive contributions to categories such as non-taxable income, bonuses and incentives, and retirement.

2016: DMI borrowed \$22 million to plug hole in employees' failing pension program

It's bad enough that DMI executives have historically received such excessive retirement benefits. According to Footnote 9 of DMI's financial audit for the fiscal year ending December 31, 2021: In fall 2016, when the pension program covering those executives' retirement packages was under duress, dairy promotion dollars were used to BAIL OUT that failing pension program. In October 2016, DMI borrowed \$22 million from CoBank (The National Bank for Cooperatives) to cover losses associated with a failing pension program in which several Qualified Programs' employees (including DMI's) were vested. That loan was repaid over five years, with an interest rate of 3.9%, according to DMI's 2021 financial audit.

I challenge the legality of DMI's use of over \$22 million (principal and interest) to bail out an employees' failing pension program. Bailing out DMI's failing pension program does not meet the Congressional mandate for use of the dairy promotion checkoff funds. As with numerous other DMI expenditures, that \$22 million pension program bailout (excluding interest costs) did nothing to promote the sale of dairy products.

DMI: An unchecked bureaucracy run amok

Please take this complaint seriously. I am urging subscribers of my dairy marketing publication, *The Milkweed*, to also contact your office requesting such as investigation. Further, I will attempt to enlist elected federal officials to contact OIG requesting an investigation of DMI.

Sincerely,

Peter L. Hardin, *The Milkweed*, Editor-Publisher • 608-455-2400