

PROCESSING RESOURCE HANDBOOK

A Guide to USDA Foods for Recipient Agencies



TABLE OF CONTENTS

| | |
|---|----|
| Glossary & Acronyms | 5 |
| Glossary | 5 |
| Acronyms | 10 |
| Introduction | 14 |
| USDA Mission..... | 15 |
| ACDA Mission | 16 |
| Getting Started | 17 |
| USDA Foods Entitlement..... | 17 |
| Calculating Entitlement..... | 17 |
| USDA Foods Available | 18 |
| Direct Delivery – Formerly “Brown Box” | 18 |
| Direct Delivery – Value Added..... | 18 |
| Direct Diversion to Approved Processors for Further Processing..... | 19 |
| DoD Fresh Fruit and Vegetable Program | 19 |
| Yields..... | 19 |
| Order Versus Requests | 20 |
| Order-driven Systems | 20 |
| Summary End Product Data Schedules (SEPDS)..... | 21 |
| Web-based Supply Chain Management (WBSCM)..... | 22 |
| Roles and Responsibilities | 22 |
| States (SDA)..... | 22 |
| Recipient Agencies (RAs) | 24 |
| USDA..... | 24 |
| Roles and Responsibilities | 24 |
| Distributors | 25 |
| Processors..... | 25 |
| RA Planning & Forecasting for USDA Foods Use | 27 |
| Menu Planning | 27 |
| Forecasting | 27 |
| Analyzing Costs and Value | 27 |
| Tracking Sales Verification of Processed Goods | 27 |
| Recordkeeping and Retention | 28 |
| Record Keeping..... | 28 |
| Retention | 28 |
| Value Pass Through System..... | 28 |
| Regulations | 28 |
| Rebates | 28 |
| Fee-for Service, traditional model | 29 |
| Fee-for-Service Through a Distributor | 30 |

TABLE OF CONTENTS

| | |
|--|----|
| Net off Invoice (NOI)/Indirect discount..... | 30 |
| Food Safety/Emergency Preparedness | 31 |
| Managing Recalls..... | 31 |
| States | 31 |
| Recipient Agencies (RAs) | 31 |
| USDA Recall Resources | 31 |
| Distributors/Processors | 33 |
| Disaster Planning..... | 33 |
| State Emergency Notification System (SENS) | 33 |
| Recipient Agencies (RAs) | 34 |
| Procurement | 34 |
| Procurement Methods..... | 34 |
| Market Basket..... | 36 |
| Rules to Note..... | 36 |
| Resources | 37 |
| Co-Ops and Buying Groups..... | 38 |
| Types of Co-ops..... | 38 |
| Food Service Management Companies (FSMC) and Donated Foods | 39 |
| Inventory Systems | 39 |
| Single Bank Inventory Management..... | 40 |
| Food Claims on Losses..... | 40 |
| USDA Foods Complaint Process..... | 40 |
| Processors..... | 42 |
| Audit Requirements..... | 42 |
| Inventory Management..... | 42 |
| Performance Monitoring | 43 |
| Monthly Performance Reports..... | 43 |
| Manufacturer’s Product Formulation Statement (PFS)..... | 44 |
| Distributors | 45 |
| Distributor Agreements..... | 45 |
| Authorized Agents..... | 45 |
| Pooled vs. Non-Pooled Inventory..... | 45 |
| Appendices | 45 |
| Final Rule released May 1, 2018..... | 45 |
| Policy Memos..... | 45 |

GLOSSARY OF TERMS

Agricultural Marketing Service (AMS): The USDA Agency responsible for purchasing such as meat, poultry, fish, fruits, vegetables, grain, dairy, peanut, and oil products under price support activity. AMS also provides end-product certification that, at a minimum, certifies that diverted or substituted meat and poultry USDA Foods are replaced with generically identical USDA Foods of US origin that meet USDA specifications. AMS purchases all USDA Foods.

Average Price File for Processors: This file lists the price of USDA Foods used for processing and includes the material numbers, description, pack sizes and other pertinent information. The pricing information is used to determine the value passthrough for the upcoming Agreement year that begins on July 1. The price represents the average of prices over the previous 12 months. The price file address can be found at <http://www.commodityfoods.org/links>

Backhaul: The pickup of a USDA Foods products from a Recipient Agency facility by a processor for processing and return. There may be an additional charge per pound to pick up the food. Any substitution of backhauled USDA Foods product is expressly prohibited. RAs may need their SDAs permission to backhaul USDA food to a processor.

“Brown Box” USDA FOODS: see *Direct Delivery*

Carrier: A commercial enterprise that receives a shipment of donated foods from a vendor or from a federal storage facility.

Child Nutrition (CN) Labeling Program: CN labeling is a fee for service program administered by the Agricultural Marketing Service (AMS) with oversight by the Child Nutrition Division (CND) of Food and Nutrition Service (FNS). It evaluates formulations to determine the contribution a serving of a commercially prepared product makes toward the school meal pattern requirements. When approved, a label is placed on the end product that states that the product meets USDA specifications and can be credited as a component(s) of the reimbursable meal pattern requirement. As such, CN labels are a form of certification that the labeled products meet its stated contribution to reimbursable school meals. RAs may rely on the label in menu planning. If the product is found not to meet its stated contributions, the school is held harmless for menu deficiencies.

Commingling: The storage of donated foods with commercially purchased foods.

Commodity File: This has been replaced with the Average Price File for Processors.

Commodities: Obsolete term—now called USDA Foods

Contract Value of USDA Food: The price assigned to a USDA food that reflects USDA’s current acquisition price, transportation, and, if applicable, processing costs related to the food.

De-escalation Clause: a provision in a contract which calls for a reduction in price in the event of a decrease in specified costs.

Direct Delivery: Also known as “brown box”: Products which USDA purchases for delivery to Recipient Agencies. Direct delivery items include both unprocessed and minimally processed products as well as “value-added” items. Unprocessed or minimally processed items include items such as canned or frozen fruits and vegetables, raw

GLOSSARY OF TERMS

ground beef, cut up chicken and whole-body turkey, and brown rice. Value-added products include items like turkey taco meat, roasted chicken pieces, sliced cheese, and frozen fruit cups.

Direct Diversion: Items purchased in bulk form for shipment to further processors on behalf of RAs. Diverted items include chilled chickens and turkey, coarse ground beef and pork, and similar items that are used in making finished-end products for RAs.

Diverted Products - Items procured by USDA and shipped to a processor in response to diversion requests.

DoD-Department of Defense (DoD) Fresh: Is a fresh fruit and vegetable program which supports domestic fresh produce for which RAs can use entitlement funds for purchasing.

Disaster: A Presidentially declared disaster or emergency, in accordance with Robert T. Stafford Disaster Relief and Emergency Assistance Act, in which federal assistance, including donated food assistance, may be provided to persons in need of such assistance as a result of the disaster or emergency.

Distributing agency: A state agency entering into agreement with FNS via a form FNS-74, to receive, store, and distribute donated foods. Retains permanent agreement with amendments and ensures compliance with Part 250 regulations. Private nonprofits may not act as distributing agencies although they may act as sub-distributing agencies.

Distribution Charge: The cumulative charge imposed by distribution agencies on school food authorities to help meet the costs of storing and distributing donated foods and administrative costs related to such activities. Funds obtained must be used to meet the costs of storing and distributing donated foods and related administrative costs. These funds may not be used to purchase foods to replace losses or to pay claims.

End Product: A finished product containing any amount of USDA Foods product that has been commercially processed.

End Product Data Schedule (EPDS): A standard form used to describe the finished end product being produced. Information detailed on this form includes formulation, quantity of donated food needed to produce a specific number of units of end product, and packaging and yield information.

Entitlement: The total USDA Foods assistance available to a State Distributing Agency for the school meals program. It is calculated by multiplying the number of lunches claimed in the prior year by the annually established per-meal rate.

Entitlement Rate: the per-meal entitlement established in any given year. The rate formula is established in the Act and adjusted annually based on a fixed index.

EPDS – End Product Data Schedule - This is the detailed form that includes product formulation, USDA Foods ingredients and the quantity and value of USDA Foods ingredients credited for each case of finished end product sold to recipient agencies. EPDS are submitted by processors to USDA, but not publicly available.

GLOSSARY OF TERMS

Escalation Clause: a provision in a contract which calls for an increase or decrease in price in the event of a change in specified costs.

Fair market Value (FMV): the price of commercial products used to establish the value of USDA Foods. FMV has been replaced with the average price.

Fee-For-Service (FFS): A value pass-through system which separates the value of donated USDA Foods from the other costs of production. The FFS price represents a processor's costs of ingredients (other than USDA Foods), labor, packaging, overhead, and other costs incurred in the conversion of the USDA Foods into the specified end product. Feeforservice is an alternative to using a standard value passthrough system.

Fee-For-Service Through a Distributor (FFSD): A VPT system whereby the distributor bills the RA for the end products that include the Fee-for-Service and the distributor's costs. The distributor must provide documentation to the RA that describes the fee-for-service price and distributor cost separately.

Food and Nutrition Service (FNS): The USDA federal Agency responsible for administering domestic food assistance programs and the distribution of donated foods to State distributing agencies for further distribution and use.

Food Distribution Division (FDD): The FNS division responsible for administering the donation of USDA Foods to domestic nutrition assistance programs.

Food Recall: An action to remove food products from commerce when there is reason to believe the products may be unsafe, adulterated, or mislabeled. The action is taken to protect the public from products that may cause health problems or possible death.

Food Safety Inspection Service (FSIS): The USDA Agency whose primary mission is to inspect the wholesomeness of meat and poultry products.

Grader: A person licensed as a representative of AMS to monitor, examine, and certify the production of end products made of poultry or red meat containing USDA Foods products. All USDA Foods processors are required to have graders present when producing processed goods. The fees assessed by USDA for graders are included in the cost of USDA Foods processed items.

Guaranteed Yield: A concept in processing where the processor guarantees a fixed number of cases will be produced using a fixed amount of meat or poultry. Calculations are based on the pounds needed to produce a case of finished product.

Invitation for Bid (IFB): Invitation for bid to processors to submit a proposal for a product based on pricing, with award to lowest bid from responsive and responsible bidders.

Indirect Refund Sale: The processor sells product to the distributor at the commercial price. The distributor invoices the RA this price plus the distributor markup. Refunds for the value of the USDA Foods product are made to the RA upon receipt of the refund application.

GLOSSARY OF TERMS

Inventory Management: The accounting of USDA Foods product for which a Distributing Agency, Recipient Agency, or processor is liable or responsible. In processing, the inventory can include food in physical inventory (on hand), in finished USDA Foods processed products, or in book inventory.

Limited Substitution: A term describing a processor's ability to substitute commercial poultry for USDA purchased poultry with the concurrence of both AMS and FNS.

Manufacturing Yield: The actual yield a processor achieves when converting raw USDA Foods into a finished end product.

Monthly Performance Reports (MPR): Reports submitted monthly by the processor to the Distributing Agency detailing receipts of USDA Foods pounds, sales of finished end products to Recipient Agencies, and information on the inventory of USDA Foods.

Multi-State Food Processor: A processor who has entered into a processing agreement with agencies in more than one state or a processor who has entered into a processing agreement with an agency that is in a state other than where the processor's plant or business office is located. If finished product crosses a state line, the processor is considered a multi-state processor.

National Processing Agreement (NPA): A processing agreement between a multi-state processor and USDA where USDA approves all End Product Data Schedules (EPDS) and holds the surety instrument for inventory protection. This is used in conjunction with State Participation Agreements signed between the individual state and the processor. The NPA ensures that a multi-state processor complies with all of the applicable requirements that is related to the processing of donated foods.

National Monthly Performance Report (NMPR): A report submitted to FNS under the National Processing Agreement that summarizes the individual state monthly performance reports for the purposes of national monitoring of the processor's inventory balances.

"Net off Invoice" (NOI)/Indirect Discount: A VPT system. Processors sell finished product to distributors at commercial price. Distributor sells end product to RA at price minus the value of the USDA Foods products used. Distributor submits documentation to processor that product was sold and receives a credit from processor. Verification of sales from RAs is required.

Non-substitutable Food: A USDA food that cannot be substituted with a commercially purchased product under the terms of a processing agreement.

Office of Food Safety (OFS): The overall goal for OFS is to protect people served by FNS programs from foodborne illness. The OFS office provides food safety, technical assistance, education, and training to FNS programs.

One Hundred Percent Yield (100%): A requirement that 100 percent of the substitutable USDA Foods product given to the processor actually be contained in the finished end product returned to the eligible

GLOSSARY OF TERMS

Recipient Agency. The processor guarantees a fixed number of cases will be produced using a fixed amount of meat or poultry. Any manufacturing losses (the difference between 100% and the manufacturing yield) are to be made up by the processor with commercial USDA Foods of domestic origin and equal or better quality than the USDA Foods that was provided.

Per Meal Rate: The national average value of USDA Foods shall be adjusted each July 1 to reflect the annual percent change for the five major food components in the Bureau of Labor Statistics Producer Price Index during the months of March, April, and May in the Price Index for Food Used in Schools and Institutions.

Planned Assistance Level (PAL): The total USDA Foods assistance available to a School Food Authority / Recipient Agency for the school lunch program is calculated by multiplying the number of lunches claimed by the School Food Authority in the prior year by the established per-meal-rate.

Processing: A commercial enterprise's use of a commercial facility to-convert USDA Foods into an end product, repackaging of USDA Foods, and to use USDA Foods in preparation of meals

Processor: Any commercial facility which processes or repackages USDA Foods. However, commercial enterprises, which handle, prepare, and/or serve products or meals containing USDA Foods on-site solely for the individual Recipient Agency under contract are exempt under this definition. School food authorities that provide meals to other eligible outlets are exempt from being defined as processors if they provide accountability for the USDA Foods they are given and return any profit from the venture to their own school food service account.

PTV – the *Pass-through Value of USDA Foods* - This is value of the USDA Foods ingredients included in processed end products expressed in price per pound or case.

RA –Recipient Agency.

Request for Proposal (RFP): An invitation to processors to submit a proposal for end products that will identify risks and benefits that can be evaluated in conjunction with pricing.

Rebate: A VPT where the RA pays the commercial price for processed items and then submits a request for rebate for the value of donated food used. A value passthrough system by which a Recipient Agency purchases a processor's end products at the commercial price and receives from the processor, by means of a refund application, a payment equivalent to the value of the USDA Foods contained in the end products. See the definition of *Refund Application* and *Indirect Refund Sale*.

Recipient Agency (RA): Any of the following organizations within a state eligible to receive USDA Foods: schools (public and private), residential child care institutions, charitable institutions, nutrition programs for the elderly, summer camps, Summer Food Service Program participants, and soup kitchens.

Recipient Agency Processing Agreement: An agreement between an RA, or cooperative buying group, and a processor to process donated foods and to purchase the finished end products.

GLOSSARY OF TERMS

Re-donation: A USDA Foods item that has been shipped to one State Distributing Agency (SDA), then returned to the custody of USDA and given to another SDA.

Refund Application: An application (usually a preprinted form) completed by a Recipient Agency or distributor and sent to the processor that certifies the purchase of end products. Receipt of the refund application obligates the processor to refund the contract value of the USDA Foods product contained in the end products purchased. This application may be sent electronically.

Refund System: see *Rebate*.

SA/ SDA- SA means State Agency; SDA means State Distributing Agency. The terms are interchangeable and refer to the authorized state agency that manages USDA Foods distribution.

SEPDS – Summary End Product Schedule - This is the list of all approved products offered by a processor. It is generated from the EPDS's submitted to USDA and includes only the crediting information. It is available to states and recipient agencies.

Single Inventory: This concept was introduced in Policy Memo No. FD-020 (*See Appendix No. 10*). The main premise of this policy was to eliminate the obligation of the RA to maintain and report separate inventories and values of commercial and USDA Foods. Since USDA has promoted commercial labeling of USDA Foods and the increase of processed raw USDA Foods by commercial vendors, it had become increasingly difficult for RAs to discern the difference between the two. This policy represents a paradigm shift in how USDA Foods are valued once the RA receives them. In essence, once the RA receives the USDA Foods items they become indistinguishable from commercial product. The burden of responsibility is on the RAs to require the processor to account for inventory tracking of backhauled product, instead of RAs needing their SDAs permission to do this.

Split Shipment: A shipment of donated foods from a vendor that is split between two or more distributing or recipient agencies, and that usually includes more than one stop-off or delivery location.

Standard Yield: A concept that originated in poultry processing where the processor guarantees a fixed number of cases will be produced using a fixed amount of USDA Foods product. The standard yield is fixed by USDA and is set at a level that requires the processor to add commercial equivalent raw materials to achieve the set yields. Standard yield is the minimum weight or number of finished units of processed product that will be produced and returned using a fixed amount of commodity food. This information is obtained from the End Product Data Schedule (see EPDS). Standard yield could be used for other USDA Foods when a processor has significant manufacturing loss in the production of an end product.

State Distributing Agency (SDA): The agency, usually an agency of State government, which enters into an agreement with FNS for the distribution of USDA Foods to eligible Recipient Agencies.

State Participation Agreement (SPA): An agreement between an individual state and a multi-state processor, which defines how the processor may do business in that particular state. Used in conjunction with a National

GLOSSARY OF TERMS

Processing Agreement (NPA).

Summary End Product Data Schedule (SEPDS): A compilation of the information that was provided through the submission of individual EPDS's to USDA under a National Processing Agreement. This schedule provides relevant information to RAs regarding case weight, serving sizes, approximate servings per case, and the USDA Foods items needed to produce a case of finished product.

Sub-distributing agency: A state agency, public agency, or a nonprofit organization selected by the distributing agency to perform one or more activities required of the distributing agency in accordance with a written agreement between the parties. A sub-distributing agency may also be a recipient agency.

Substitutable Food: A USDA Foods product that may be replaced by a commercially purchased food of domestic origin, generically identical and equal or better in quality.

Transfer: The giving of USDA Foods product by an eligible Recipient Agency to another eligible Recipient Agency. Transfers between like recipients are approved by the state or states involved and transfers between unlike recipients must be approved by FNS.

USDA Foods: Food provided by USDA to states to issue to eligible RAs. USDA Foods are formerly referred to as "commodities." Although USDA Foods are purchased with "entitlement dollars," those dollars are provided by law to eligible RAs.

Value Pass-through System (VPT): A system used to ensure that the full value of the USDA food contained in the end product is passed on to the eligible purchasing Recipient Agency. See the definitions for *Refund System*, *Indirect Refund Sale*, *Fee-for-Service*, *Fee-for-Service Through a Distributor* and *NOI*.

VPT – Value Pass-through System - The VPT is the system used to credit the value of USDA Foods to the recipient agency.

WBSCM: Web-based Supply Chain Management is an internet-based computer system used by USDA to process and track USDA food for nutrition assistance programs.

FREQUENTLY USED ACRONYMS

| | |
|-------|--|
| AAA | Area Agencies on Aging |
| ACDA | American Commodity Distribution Association |
| ADP | Average Daily Participation |
| AMS | Agricultural Marketing Service, USDA |
| AR | Administrative Review |
| BMI | Business Management Improvement |
| CACFP | Child & Adult Care Food Program, FNS/USDA |
| CAP | Commodity Acceptability Progress [Reports] |
| CCC | Commodity Credit Corporation, FSA/USDA |
| CDC | Centers for Disease Control and Prevention, DHHS |
| CFR | Code of Federal Regulations |
| CPA | Certified Public Accountant |
| CI | Charitable Institutions |
| CID | Commercial Item Description |
| CLOC | Commodity Letter of Credit |
| CN | Child Nutrition |
| CNOB | Child Nutrition Operations Branch, FDD/FNS/USDA |
| CPI | Consumer Price Index |
| CR | Civil Rights |
| CSFP | Commodity Supplemental Food Program, FNS/USDA |
| DA | Distributing Agency aka/ SDA |
| DF | Donated Foods |
| DHHS | Department of Health & Human Services |
| DoD | Department of Defense |

FREQUENTLY USED ACRONYMS

| | |
|----------|---|
| HH | Household Branch, FDD/ FNS/USDA |
| ICN | Institute of Child Nutrition (formerly NFSMI) |
| IFB | Invitation For Bid |
| ITO | Indian Tribal Organizations aka/DA |
| MFFS | Fee for Service through a distributor or Modified Fee for Service |
| MPR | Monthly Performance Reports |
| NAFDPIR | National Association of Food Distribution Programs on Indian Reservations |
| NMPR | National Monthly Performance Report |
| NO | National Office |
| NOI | Net Off Invoice |
| NPA | National Processing Agreement |
| NSBP | National School Breakfast Program, FNS/USDA |
| NSAB | Nutrition Services Access Branch, FDD/FNS/USDA |
| NSIP | Nutrition Services Incentive Program FNS/USDA |
| NSLA | National School Lunch Act |
| NSLP | National School Lunch Program, FNS/USDA |
| OGC | Office of General Counsel, USDA |
| OFS | Office of Food Safety, USDA |
| OIG | Office of the Inspector General, USDA |
| OMB | Office of Management and Budget |
| P.L. | Public Law |
| PAL | Planned Assistance Level |
| PART 250 | Regulations for Distribution and Control of Donated Foods |
| PIMB | Policy, Integrity, & Monitoring Branch, FDD/FNS/USDA |

FREQUENTLY USED ACRONYMS

| | |
|-------|--|
| PCCP | Process Control Certification Program |
| PO | Purchase Orders |
| PTV | Pass Through Value |
| PR | Purchase Requisition |
| RA | Recipient Agency |
| RFI | Request for Information |
| RFP | Request for Proposal |
| RFQ | Requests for Quotation |
| SA | State Agency |
| SO | Sales Order |
| SC | Summer Camps |
| SDA | State Distributing Agency aka/ DA |
| SEA | State Education Agency |
| SEPDS | Summary End Product Data Schedule |
| SFA | School Food Authority |
| SFSP | Summer Food Service Program, FNS/USDA |
| SKU | Stock Keeping Unit |
| SNEB | Society for Nutrition Education and Behavior |
| SNA | School Nutrition Association |
| SNAS | Supplemental Nutrition and Safety / FNS/USDA |
| SOC | State Option Contracts [Program], AMS/FNS/USDA |
| SPA | State Participating Agreement |
| SY | School Year or Standard Yield depending on the reference |
| TANF | Temporary Assistance for Needy Families |

FREQUENTLY USED ACRONYMS

| | |
|-------|---|
| TEFAP | The Emergency Food Assistance Program, FNS/USDA |
| USDA | United States Department of Agriculture |
| VPT | Value Pass Through |
| WBSCM | Web Based Supply Chain Management |
| WIC | Women, Infants, and Children, FNS/USDA |

FREQUENTLY USED ACRONYMS

| | |
|-------|--|
| DLA | Defense Logistics Agency |
| EFOs | Emergency Feeding Organizations |
| EPDS | End Product Data Schedule |
| EPLS | Excluded Parties List System |
| FAL | Foods Available List |
| FDA | Food and Drug Administration, DHHS |
| FD | Food Distribution |
| FDD | Food Distribution Division, FNS/USDA |
| FDPIR | Food Distribution Program on Indian Reservations, FNS/USDA |
| FEMA | Federal Emergency Management Agency |
| FFS | Fee For Service |
| FFSD | Fee For Service through Distributor |
| FMV | Fair Market Value |
| FNCS | Food, Nutrition and Consumer Services, USDA |
| FNIC | Food and Nutrition Information Center |
| FNS | Food and Nutrition Service, USDA |
| FNSRO | Food and Nutrition Service (FNS) Regional Office |
| FOIA | Freedom of Information Act |
| FSA | Farm Service Agency, USDA |
| FSIS | Food Safety and Inspection Service, USDA |
| FSMC | Food Service Management Companies |
| FY | Fiscal Year |
| GMR | Guaranteed Minimum Return |
| GR | Guaranteed Return |
| HACCP | Hazard Analysis and Critical Control Point |

INTRODUCTION

The USDA Foods Program (formerly known as the USDA Commodity Distribution Program) provides approximately 15-20% of the food served in the National School Lunch Program (NSLP). The program, established in 1935, serves two key roles: to support American agriculture and to provide nutrition assistance to children and families. USDA Foods are distributed to nutrition assistance programs that serve school children through school meal programs, emergency feeding (pantries), food distribution on Indian Reservations, food packages for the elderly, and to supplement disaster feeding.

The rules governing this program can be found in the Code of Federal Regulations, 7 CFR Part 250 and 7 CFR Part 235.

<https://www.fns.usda.gov/part-235%E2%80%94state-administrative-expense-funds>

<https://www.fns.usda.gov/part-250%E2%80%94donation-foods-use-united-states-its-territories-and-possessions>

States receive two types of support from the USDA, cash reimbursement (cash in lieu) for meals served or entitlement funding to distribute to school districts. The funds allocated to states are based on a yearly established per meal rate. For schools, the amount of funds available is calculated by multiplying the number of creditable lunches claimed in the previous year times the per meal rate. While USDA Foods is a federal program, it is administered to Recipient Agencies (RA)s through State Distributing Agencies (SDA). The yearly meal rate published by USDA can be found at: <https://www.fns.usda.gov/school-meals/rates-reimbursement>.

The goal of this handbook is to provide a practical, easy-to-use resource for understanding and utilizing USDA Foods used by the various entities supporting school meals. This handbook provides an overview of USDA Foods and includes sections targeted at various stakeholders such as recipient agencies, processors, and distributors.

USDA MISSION

School meal programs are administered at USDA by the Food and Nutrition Service (FNS). The Food Distribution Division (FDD) oversees the USDA Foods program. The FNS mission is to strengthen the nation's nutrition safety net by providing food and nutrition assistance to school children and families through USDA Foods distribution and other nutrition assistance to low-income families, emergency feeding programs, Indian Reservations, and the elderly.

Managing USDA Foods efficiently and effectively is an important goal of the Food and Nutrition Service (FNS), Food Distribution (FDD), and FNS regional offices. FNS administers and provides USDA food for the following programs: National School Lunch Program (NSLP), School Breakfast Program (SBP), Summer Food Service Program (SFSP), Nutrition Services Incentive Program (NSIP), Child Adult Care Food Program (CACFP), The Emergency Food Assistance Program (TEFAP), Commodity Supplemental Food Program (CSFP), and Food Distribution Program on Indian Reservations (FDIPR).

USDA uses funds for donated foods to Buy American. This is the purchase of foods in the commercial market, distribution or recipient agencies in continental U.S., and in Hawaii, to the maximum extent practical, from domestic foods or food products. Domestic foods or food products are defined as: (1) Agricultural commodities that are produced in the U.S.; or (2) Food products that are processed in the U.S. substantially using agricultural commodities that are produced in the U.S. The Buy American provision is also applicable to food purchases made with cash in lieu of donated foods received in NSLP and CACFP.

USDA Foods procurement is administered by the Agricultural Marketing Service (AMS). Their mission is to help to stabilize prices in domestic agricultural markets by balancing supply and demand.

The two agencies work together to meet the demands of their dual missions.

ACDA MISSION

The American Commodity Distribution Association (ACDA) is a non-profit professional association devoted to the improvement of the U.S. Department of Agriculture's (USDA) commodity distribution system. ACDA members include association agencies that distribute USDA commodities; agricultural organizations; recipient agencies, such as schools; industry groups, such as food manufactures and processors; and allied organizations, such as non-profit, anti-hunger groups. ACDA members distribute over 1.5 billion pounds of domestically produced commodities annually to programs such as the National School Lunch Program and School Breakfast Program, the Emergency Food Assistance Program, the Summer Food Service Program, the Commodity Supplemental Food Program, and the Child and Adult Care Food Program.

ACDA was formed in 1974 as the National Association of State Agencies for Food Distribution (NASAFD). In June 1990, the Association's name was changed to demonstrate the growth and commitment of the organization in representing a broad spectrum of government food distribution interests including the processing of USDA donated foods. The purpose of the Association is to provide a collective voice in promoting the USDA Donated Food Distribution Programs as a means of strengthening the American agricultural economy and provide food assistance to needy Americans.

ACDA Resources can be found at <http://www.commodityfoods.org/acdaresources>

GETTING STARTED

USDA Foods Entitlement

The USDA Foods program provides a variety of nutritious USDA Foods for the National School Lunch Program (NSLP) and other recipient agencies. Each school year (SY) State Distributing Agencies SDAs receive an allocation of entitlement dollars to request USDA Foods selected and purchased by USDA. The entitlement dollars made available to each RA is calculated by multiplying the number of lunches claimed in the previous school year (SY) times an established per meal rate. The per-meal rate is based on a formula defined in Section 6 of the Richard B. Russell National School Lunch Act (NSLA) and includes an annual adjustment that reflects the three-month average value of the Price Index of Foods used in schools and institutions. It is updated each year in July. This entitlement is issued to states which, in turn, communicate allocations, known as the Planned Assistance Level (PAL), to each RA according to the number of meals they claimed.

The yearly meal rate published by USDA can be found at: <https://www.fns.usda.gov/school-meals/rates-reimbursement>

Calculating Entitlement

How Funds are Calculated and How Entitlement Can be Used

- The USDA Foods program provides a variety of nutritious USDA Foods for the National School Lunch Program (NSLP) and other recipient agencies.
- Each school year, SDAs (State Distributing Agencies) receive an allocation of entitlement dollars to request USDA Foods selected and purchased by USDA.
- Planned Assistance Level (PAL) is an annual estimate of how much entitlement dollars will be assigned to the individual Recipient Agency.

While USDA Foods is a federal program, it is administered to RAs (Recipient Agency) through SDAs. The yearly meal rate published by USDA can be found at: <https://www.fns.usda.gov/school-meals/rates-reimbursement> and is an important factor in determining total entitlement

- Entitlement dollars are calculated by multiplying the number of reimbursable lunches served during the previous year by the per-meal value

$$\text{Meal Rate X Total lunches served} = \text{Total Entitlement}$$

Example:

1,667 students = Average Daily Participation (ADP)

180 school days

\$.23 per meal in 2016-2017 = USDA's Projected Commodity Entitlement Rate

1,667 students x 180 school days = 300,060 lunches

300,060 lunches/yr x \$.23 = \$69,013.80 Entitlement Dollars

- Based on state permissions, schools can elect to spend their entitlement in several ways: "direct

GETTING STARTED

delivery” USDA Foods for on-site preparation (formerly known as brown box), elect to have the USDA Foods diverted to a manufacturer for further processing to make into usable end products such as fully cooked hamburgers or chicken patties, or on Department of Defense fresh fruit and vegetables.

- USDA foods may not be sold, exchanged, or other disposition unless approved, or as permitted in Part 250 (e.g. donated foods may be included in meals sold in NSLP).

USDA Foods Available

Yearly, the Foods Nutrition Service (FNS) and the Agricultural Marketing Service (AMS) jointly update the Foods Available List (FAL) which is published at the end of December. The (FAL) is a list of over 200 healthy options for USDA Foods that may be offered by USDA to State Distributing Agencies (SDA) annually. SDAs are required to use a request-driven system that permits RAs to receive USDA Foods that meet their needs. It is required by SDAs to allow RAs the opportunity to provide their input at a minimum of once annually after the FAL is published. Nevertheless, the USDA Foods offerings to purchase depends on SDA decisions and the RA input. Overall, the SDA must ensure that the use of the donated USDA Foods is in a cost-effective manner (including the use of split shipments, as necessary). Although SDAs are responsible for making ordering decisions, the SDA must ensure that their decisions are based on input received from RAs and that USDA foods are utilized efficiently and without waste. The Foods Available list can be found at: <https://www.fns.usda.gov/usda-foods/usda-foods-expected-be-available>. All USDA Foods have been assigned a “material code.” It is important to use these codes when you are processing to ensure you are requesting the correct items. Each USDA Food has its own yield, and that affects overall true costs. Listed below are subcategories of the types of USDA Foods available:

Direct Delivery – Formerly “Brown Box”

USDA purchases food products for SDAs which can be used in recipes for school meals; minimally processed means only those “agricultural products that retain their inherent character.” Preparations like butchering, husking, cutting, washing, pasteurization, chilling, etc., are not considered processing.

Fruits and Vegetables – USDA offers a wide variety of canned, frozen, and dried fruits and vegetables. Some hearty fresh fruits and vegetables are also available through direct delivery, such as apples, pears, oranges as well as white and sweet potatoes. USDA is continuously evaluating and writing specifications to provide USDA Foods that support school foodservice programs in meeting meal requirements. For example, specifications for vegetables limit the amount of sodium to no more than 140 mg per ½ cup serving.

Meat/Meat Alternate: A large portion of the total pounds purchased are for meat items, with the majority of those pounds being designated for direct delivery to a further processor to convert the raw material to a fully cooked end item in various forms that are packed for use in school kitchens. These include fresh frozen fine ground beef, frozen raw

GETTING STARTED

pork roasts, and frozen raw cut-up chicken, brown rice, oats, whole wheat flour, etc.

Direct Delivery – Value Added

USDA purchases value added end products for delivery to State agency warehouses or contracted warehouses, or directly to schools for the National School Lunch Program. “Value added” means that the food has been further processed to reduce labor, preparation, and/or cooking time of the product, and may include additional ingredients like seasonings.

Fruits/Vegetables: Options such as frozen fruit cups, salsa, spaghetti sauce, and potato wedges are examples of value-added choices available.

Meat/Meat Alternate: Some examples of value-added meat/meat alternate products would be: chicken Fajita, diced chicken, Deli roll products of turkey and ham, diced and sliced pork ham, hamburger patties, and beef or pork crumbles. In addition, there are a variety of ready-to-use cheese products that easily fit into most school meal operations. Many of the USDA Foods proteins are formulated to have lower sodium and fat profiles to help schools meet the meal pattern requirements.

Grains: USDA purchases a number of products to help schools meet their grain requirements. These products include whole-grain products such as: pancakes, pasta, tortillas, and rice.

Direct Diversion to Approved Processors for Further Processing

USDA requires SDAs to enter into processing agreements with manufacturers to allow bulk USDA Foods to be used in the production of fully finished end products. Over 50% of USDA Foods purchases are diverted for further processing. There are 38 bulk USDA Food items that are available for further processing. Some of the more popular bulk USDA Foods diverted for processing are: coarse ground beef, cheddar cheese, chilled chicken, Mozzarella cheese, potatoes, pork roasts, sweet potatoes, and whole turkey.

DoD Fresh Fruit and Vegetable Program

USDA has an agreement with the Department of Defense to purchase fresh produce for schools. The “DoD Fresh” program is managed by the Defense Logistics Agency (DLA) that operates a nationwide system to purchase and distribute a wide variety of high-quality fresh produce to military installations, federal prisons, and veterans’ hospitals. Either SDAs or their schools place orders directly through the Fresh Fruit and Vegetable Order Receipt System (FFAVORS) for a variety of available, American grown fresh produce. RAs can request their SDA to allocate a portion of their planned assistance level for DoD Fresh purchases. As produce orders are delivered, the RAs planned assistance level is drawn down, like a debit system.

GETTING STARTED

Pilot Project for Procurement of Unprocessed Fruits and Vegetables:

Authorized by Section 4202 of the Agricultural Act of 2014 (P.L. 113-79, the 2014 Farm Bill), the USDA Pilot Project for Procurement of Unprocessed Fruits and Vegetables was designed to provide states with additional flexibility in the procurement of unprocessed fruits and vegetables. Participating states and RAs can purchase approved items with existing USDA Foods Program entitlement funds from any USDA Pilot-authorized vendor in support of the school meal standards.

Yields

An important factor to consider when making a decision about further processing is “yield.” There are several methods of determining yields:

100 Percent Yield: The minimum weight or number of finished units of processed end items that will be produced and returned using a fixed amount of USDA Food. The exact amount of “donated food” that is required to produce one finished case is available on the SEPDS. Under 100% yield the processor is accountable for making an RA “whole” if the actual production is short from the yield; conversely, the RA may expect to receive all cases from an “overrun.” Some RAs have found the lack of predictability of exact number of cases per order to be problematic in planning for receipt and menu planning.

Guaranteed Yield: This yield is most common for the further processing of USDA meat. A further processor must have a USDA approved Process Control Certification Program in place in order to offer this option of guaranteed return to an RA. Under guaranteed yield, a further processor guarantees a fixed number of cases will be produced using a fixed amount of meat. This ensures that the RA will receive a predictable number of cases from the diverted meat sent to a further processor. A processor must meet and maintain internal controls as overseen by USDA in the PCCP program to offer guaranteed yield to its school customers.

Standard Yield: This yield is most common for the further processing of USDA poultry. The standard yield is fixed by USDA and is set at a level that requires the processor to add commercial equivalent raw materials to achieve the set yields for each component part of the poultry—chicken and turkey. Although this adds to the cost of the end items for RAs, it has the benefit of ensuring that they will receive a predictable number of cases of finished product which assists in menu planning.

Order Versus Requests

Throughout this manual, we refer to “ordering” USDA Foods and “requesting” USDA Foods. While it is a convenient way to discuss the acquisition process for RAs and SDAs as orders, there is no guarantee that USDA will buy or deliver items requested by the states. So, while a school director may think they are “ordering” USDA Foods, they are, in fact, placing requests for the items and quantities they want.

Order-driven Systems

GETTING STARTED

USDA requires that states have systems to take orders from RAs in a manner that encourages USDA food use. WBSCM is the system utilized by SDAs to place orders with USDA and allows continuous ordering based on specified ordering periods for various products. States should have systems to solicit orders from RAs as new products become available that may be of interest.

Summary End Product Data Schedules (SEPDS)

The SEPDS form is a listing of all products from a processor with information critical to your use of USDA Foods. The SEPDS includes what USDA Food item(s) are being processed, such as turkey chilled - bulk or coarse ground beef, their USDA material codes (100124 for the turkey, and 100154 for the beef). For each case of end product, the SEPDS includes the weight, the number of servings, and the amount of donated food. This will help you calculate how much USDA Foods you need to divert to the processor and what you can expect back from them. The value of the USDA commodity used in a product is determined in November of the current year for the following school year.

Web-based Supply Chain Management (WBSCM)

WBSCM is a comprehensive, integrated system that is accessible to all partners in the USDA Foods system. AMS uses WBSCM to post solicitations for bids, make purchases, and pay invoices. FNS uses WBSCM for entitlement allocations, annual offering catalogs, delivery and receipt, and inventory management. States use WBSCM to open catalogs, take requests, place orders, monitor delivery status, and manage inventory.

In many states, the SDA “rolls down” access to WBSCM directly to RAs. This means that RAs have access to the reports, can submit orders, track status and receipt, and other related tasks necessary in managing their USDA Foods.

WBSCM is compatible with Internet Explorer (IE). Currently, the recommended and fully-supported browser version is IE 11; however, IE 9 or 10 may be used. Other browsers may not reliably support WBSCM.

The WBSCM Service Desk is a helpdesk available to assist in answering technical questions and resolving system issues. An online service portal is also available to log incidents, check status, and access knowledge resources at all times.

The USDA hosts a website that contains a vast amount of information about WBSCM and how to use it. You can find the site at: <https://www.usda.gov/topics/food-and-nutrition/web-based-supply-chain-management>

- Standard Service Desk Support
- Hours - 7:00 AM to 5:00 PM Central Time Zone, M-F, excluding Holidays.
- Phone: 1-877-927-2648
- Email: WBSCM.servicedesk@caci.com

ROLES AND RESPONSIBILITIES

The USDA Foods program is a complex, sequential process. Each stakeholder has a responsibility to ensure the integrity and effectiveness of the program; USDA for procurement and administration; states for administration, inventory management, order processing, recordkeeping, and monitoring; processors for processing, inventory management, reporting and recordkeeping; distributors for inventory management, billing and recordkeeping; and RAs for effectively using their entitlement dollars, inventory management, and recordkeeping. This section will share information about the various partners' roles.

Following is a list of many of the roles and responsibilities of the stakeholders. Some are required by law. Some are simply good business practices. ACDA's website provides many sample forms and systems to assist in carrying out these duties.

States (SDA)

- Manage USDA Foods ordering using a request-driven system process.
- Ensure that donated foods at all storage facilities used by the SDA are stored in a manner that permits them to be distinguished from other foods, and must maintain separate inventory record of donated foods.
- Provide RAs with the opportunity to provide input, at least annually, in determining foods from the full available list in determining what will be available for ordering.
- Communicate allocations to RAs.
- Consolidate RA orders, coordinate with other SDAs to meet truckload shipping requirements, and forward requests to FDD for delivery of USDA Foods.
- Determine which VPT systems will be accepted from each processor.
- Sign participation agreements (SPA) with multi-state processors. Determine whether agreements will be time limited or permanent as permitted in Part 250.
- Share SEPDS with RAs
- Enter into agreements with in-state processors.
- Report food losses to FNS and ensure that restitution is made for such occurrences.
- Ensure inventory protection for the value of donated foods equal to the average monthly value of donated food inventories in the prior year.
- Communicate processor approvals to RAs.
- Secure FNS approval for distribution changes including justification for changes in services provided under existing charges, in addition with justification for new charges.
- Monitor, establish, and enforce policies that ensure inventory levels at RAs and processors conform with limits established in regulation.
- Follow procedures established by USDA and develop and maintain a system to communicate hold and

ROLES AND RESPONSIBILITIES

recall information in a timely manner.

- Ensure compliance with food safety/food recall requirements.
- Provide training and education to RAs.
- Serve as a resource to RAs for USDA Foods related issues.
- Are required by law to ensure that RAs have the maximum options available to them to use entitlement.
- Provide, at the request of RAs, information including: types and quantities that may be ordered; specifications and nutrition value; and procedures for the disposition of out of condition and recalled foods.
- Receive and reconcile Monthly Performance Reports (MPRs).
- Enter processor complaints in WBSCM.
- Implement the State Emergency Notification System (SENS) to improve recall notification to RAs.

The State Distributing Agency plays a critical role in the USDA Foods program. Their responsibilities go in both directions – up to USDA – and down to RAs. They are the conduit through which RAs place orders and receive products, directly or indirectly. SDAs have oversight and monitoring responsibility. USDA Foods may be used in demonstrations or tests relating to their utilization, as necessary. Following is a list of some SDA responsibilities and activities as well as the support and services you can expect from your SDA. The SDA:

- Monitors and reviews RA management of USDA Foods as part of its oversight responsibility.
- Must provide guidance to processors and SFAs ensuring program compliance with regulations and policies.
- Must offer RAs a variety of USDA Foods
- Requests USDA Foods on behalf of the SFAs.
- Enters into or approves processing agreements:
 - » State Participation Agreements (SPA)
 - » In-State Master Agreements
 - » Recipient Agency Agreements
- Educates and informs SFAs of value pass-through (VPT) systems available in their state and other state-specific requirements.

The SDA ensures program compliance including Monitors Monthly Performance Reports (MPRs) and Inventory Management

Recipient Agencies (RAs)

- Plan menus to meet meal pattern requirements
- Accurately forecast USDA Foods when menu planning.

ROLES AND RESPONSIBILITIES

- Determine USDA Foods and quantities to request using entitlement dollars. Develop and award bids for processing.
- Place requisitions for USDA Foods using WBSCM or other state designated system or method.
- Enter into agreements with distributors and/or processors, when applicable.
- Receipt shipments through electronic means, and maintain records of all shipments received.
- Forward responses to surveys to state, designating processor and quantity of USDA Foods to divert.
- Monitor orders to processor to assure steady drawdown of inventory.
- If end products purchased using the NOI sales method, RA must participate in verification procedures.
- Monitor processor and distributor bills to assure value pass through of USDA Foods are received.
- If contracting with a distributor to store and deliver USDA Foods, should have signed agreements governing roles and responsibilities for handling USDA Foods, as well as a title of transfer.
- Follow recall guidance as provided by FNS Office of Food Safety.

For food safety notifications, RAs should register on www.envoyprofiles.com/USDA-ALERTS/.

- Recipient agencies may not be required to make any payments or perform services in connection with the receipt of donated foods. Voluntary contributions may not be solicited in connection with the receipt of donated foods, except NSIP donated foods.

USDA

Much of USDA's responsibility has been presented in the discussion of USDA Foods available and the USDA purchasing role. The USDA determines which foods will be available to States. As it pertains to RAs, the USDA role is limited to their oversight of the states. USDA has an agreement with states for program administration, and states have agreements with school districts and other RAs. USDA does not have a contractual relationship with the RAs.

Consistent with the two missions of USDA – supporting domestic agriculture and providing a nutrition safety net for Americans, administering both procurement and distribution is complex.

Roles and Responsibilities

- Establish annual entitlement and communicate to states
- FDD and AMS collaborate to develop purchasing plan for USDA Foods offered
- FDD communicates Foods Available List (FLA) and purchase schedule to SDAs
- FDD manages and finalizes SDA orders
- FDD approves National Processor Agreement, EPDS, and SEPDS
- AMS approves all meat and poultry EPDS's, even in-state processors
- FDD sets the level of bonds required for processors

ROLES AND RESPONSIBILITIES

- FDD maintains updated list of nationally approved processors
- FDD monitors national MPR of inventories at processors
- FDD reviews independent audits required for processors
- FNS Office of Food Safety notifies FDD of processor recalls
- FDD notifies processor and States of processor recalls

Distributors

- Store and deliver USDA Foods in accordance with awarded RA bids, state policies, and distributor/processor agreements.
 - » A processor providing end products containing donated foods to a distributor must enter into a written agreement with the distributor. The agreement must reference, at a minimum, the financial liability for the replacement value of donated foods, not less than monthly end product sales reporting frequency, requirements in § 250.11, and applicable value pass through system to ensure that the value of donated foods and finished end products are properly credited to recipient agencies. Distributing agencies can set additional requirements. (Reg 250.30(i))
- When a recipient agency has contracted with a distributor to act as an authorized agent, title to finished end products containing donated foods transfers to the recipient agency upon delivery and acceptance by the contracted distributor. (Reg 250.11(e))
- Maintain a just in time tracking system for all USDA Foods.
 - » As required, maintain system to receive, store, deliver, monitor, and process USDA Foods accurately.
 - » The system MUST BE able to maintain a system for ALL VPT types.
 - » System should track the USDA Foods Program participant data such as eligible USDA Food items, RAs entitlement banks, usage, invoices, and credits.
 - » The system MUST communicate with the Third-Party tracking systems. Examples include: GPOs, K12 Food Service, and ProcessorLink.
 - » Systematically receive and upload daily allocations files from Third-Party tracking systems.
 - » Send nightly customer invoices/credits to Third-Party tracking systems.
 - » Systemically receive and upload shut-off files from Third-Party tracking systems.
 - » Have the ability to track and monitor storage fees for storing USDA Non-Processed “Brown Box” (now Direct Delivery) foods longer than the mutually agreed upon grace period per the contract between the co-op or state agency and distributor. All Direct Delivery USDA Foods MUST be received into WBSCM within 48 hours of receipt.
- Follow recall procedures established by USDA.
- Report VPT sales to the a third-party or manufacturer reporting agency (i.e. ProcessorLink, K-12 Foodservice, etc.)
- Follow audit reporting process.

ROLES AND RESPONSIBILITIES

Processors

Processors must have an approved National Processing Agreement with FNS or an approved in-state processing agreement with an SDA, approved End Product Data Schedules (EPDS), and SEPDS. FNS requires a bond or letter of credit to protect the value of USDA Foods diverted for processing prior to receipt of the first delivery of USDA Food raw material. Nationally approved processors must also have a state approved SPA for each state where the processor is selling processed end products. Processors are accountable for the delivery of end items in the quantity guaranteed on their SEPDS. Any shortages must be made up at their own expense - ensuring that any substitution of raw material for USDA Foods is equal to or better than the USDA Foods specification, including only using domestic materials. Processors are subject to independent CPA audits - the frequency determined by the volume of their processing.

- Enter into agreements with USDA (NPA) and/or states (processing agreements and SPA) to process USDA Foods.
- Secure performance and surety bonds as required.
- Provide SEPDS to states.
- Respond to bids and contracts from RAs and SDAs for processing USDA Foods.
- Provide detailed product information to assist RAs in meeting menu and production requirements.
- Produce products that follow all federal and state requirements including inspections, grading, labeling and other related activities, and, where requested or appropriate, individual items that meet requirements for CN labeling.
- Bill RAs in accordance with bid using state's approved VPT method.
- Ship end products to RA or state-designated destination(s).
- Conduct monthly sales verifications.
- Provide monthly performance, inventory, and production reports to state and FDD.
- Retain records for a minimum of three years.
- Maintain tracking system for USDA Foods from receipt through production and delivery to all sites.
- Respond to recalls in accordance with procedures established by USDA.

In order to ensure that the distributor sells end products only to eligible recipient agencies, the processor must provide the distributor with a list of eligible recipient agencies and either: (1) The quantities of approved end products that each recipient agency is eligible to receive; or (2) The quantity of donated food allocated to each recipient agency and the raw donated food (pounds or cases) needed per case of each approved end product.

PLANNING AND FORECASTING

Menu Planning

The menu is the heart of a school operation; it must take into account student likes and dislikes, as well as meet the nutritional requirements for reimbursable school meals. USDA Foods should not drive a district's menu. In fact, your menu should determine what USDA Foods you elect to use. It is important to develop a menu for your operation that first meets your students' needs, and then determine what USDA Foods are available that support your menu. It does not benefit districts to bring in USDA Foods that students will not eat under the assumption that USDA Foods save you money.

Forecasting

Once RAs determine what the menu is going to be and what USDA Foods they want to use, the next step is to determine the quantity of product that will be needed for a given period of time. It is important to use historical data - whether inventory counts, meal counts, or production records - to forecast what students may take each time a product has a menu placement. Once this estimated count is calculated, one can determine how often the item is on the menu and estimate how much of a given product should be requested from USDA. More than 40% of all USDA Foods ordered are sent to further processors.

Many processors have spreadsheets or "commodity calculators" available that will assist in determining how many pounds of raw product need to be sent to a processor to meet your menu needs. If a processor's spreadsheet/workbook is not available, refer to the SEPDS for the product to determine the number of pounds of product (DF) needed per case.

Analyzing Costs and Value

Do not assume that just because a product contains USDA Foods it represents a savings. Several factors need to be evaluated before you proceed with processing USDA Foods:

- Does the product that contains USDA Foods have a commercial equivalent? A commercial equivalent will guarantee consistency on your menu.
- Can you afford the commercial equivalent if you run out of USDA Foods?
- What is the cost of processing the USDA Foods?
 - » What are the state charges, if any, for USDA Foods?
 - » What is the handling fee that you pay your distributor?
 - » What are your storage fees and how many months will your product be in storage?

The true value of a product manufactured with USDA Foods =

Value of USDA donated food + state charges + processing costs + storage and handling fees

PLANNING AND FORECASTING

In the end, RAs need to determine what is the best use of their Planned Assistance Level (PAL): direct delivery USDA Foods (brown box) USDA Foods diverted to a further processor of their choosing, DOD Fresh Produce, and/or the Pilot Project for Procurement of Unprocessed Fruits and Vegetables. Like all other purchasing decisions, the use of your commodity entitlement must be in the best interest of students and the child nutrition program operated.

USDA has created a USDA Foods Cost Analysis Tool which can assist school districts in doing cost comparisons and assist them with annual forecasting. http://www.fns.usda.gov/sites/default/files/USDA_Foods_Cost_Analysis_Tool.xlsx.

Tracking Sales Verification of Processed Goods

Processors must have a system to maintain USDA Foods. Most processors use a third-party tracking program to manage and track their sales transactions for USDA Foods processing diversions. Two third-party programs widely used are ProcessorLink and K12 Foodservice. These programs provide a useful tool to confirm what processed products have been received by the RA. RAs should set up accounts with each of these agencies to monitor sales verification and pounds balances with USDA Foods processing manufacturers.

RECORDKEEPING AND RETENTION

Record Keeping

RAs

Section 7 CFR 250.37(f) requires that the RA maintain the following records relating to the processing of donated foods:

1. Receipt of end products purchased from processors or distributors.
2. Crediting for the value of donated foods contained in end products.
3. Recipient Agency Processing Agreements.
4. Procurement documents, as applicable.

Distributors/ Processors

1. By agreement, distributors must provide processors with a usage report in a mutually agreed format including the RA, product(s) sold, and the number of cases delivered. It is essential that the distributor provide this usage report on a monthly basis (preferred by the 15th), at a minimum.
2. The processor of substitutable product(s), upon receiving this usage report, may draw down inventory based on those sales.
3. The processor of red meat and poultry product(s) reports the sales activities when the product is shipped and accepted by signed Bill of Lading to the RA or their designee.

Retention

Each processor is to keep records of the methodology used for selecting records for each sample and retain the responses from the RA for at least three years following the close of the federal fiscal year for which they pertain unless longer retention is required for resolution of an audit, litigation, or investigation. These retention requirements also apply to records of corrective action taken to resolve each error (such as adjusting the USDA Foods Processing Reports) and subsequent plans and actions to prevent or reduce future errors.

VALUE PASS THROUGH (VPT) SYSTEMS

Federal law requires that RAs receive the full value of their USDA Foods. When processing, this value must be passed through to the RA by the processor. The method used to credit the RA is called the value pass-through (VPT). There are four primary forms of VPT methods, with variations in each. When implementing a VPT method, a written agreement outlining the business practices and responsibilities of the processor and distributor will ensure a clear understanding of the roles of each party.

Regulations

The authority for value pass-through systems is found in the Code of Federal Regulations at 7 CFR Parts 250 and 251, found at: <http://www.commodityfoods.org/links>. The regulations are restrictive, as opposed to permissive, in that only systems that have been approved may be used. However, USDA has broad authority to test new approaches through limited pilots.

Rebates

Rebate is one VPT option for RAs. With rebates, an RA orders processed products from approved SEPDS and pays the full price of the item. The full price is the total price of the USDA Foods content of the item, the fee-for-service from the processor and, if delivered to a third-party distributor (commercial or state run), any fees for storage and delivery/handling. Upon proof of delivery to the RA, the processor issues a check for the value of the USDA Foods contained in the case(s) of processed products received. When the check is issued, the processor draws down the inventory of USDA Foods allocated to the RA. The processor must provide to the agency within 30 days of receiving a request from that agency. The refund request must be in writing, which may be transmitted via email or other electronic submission.

The most common approach is for the RA to submit a rebate form with appropriate proof of delivery. This mode requires more tracking and record keeping for the RA to ensure that they request rebates for all eligible purchases.

One of the negatives for the rebate system is that the work and cost of managing it, particularly for small schools and/or small quantities, may be high relative to the value of the rebates. If the RA does not submit the reimbursement claim, the inventory is not drawn down. Assembling the claim information and submitting it may be time consuming for the RA. In addition, issuing a large number of small checks is time consuming and expensive for the processor.

USDA rules require monthly reconciliation and check issuance for rebates unless the check is less than \$25. Some states have been granted waivers allowing longer accumulation time and less frequent distribution of rebate checks.

A concern for some RAs is that rebate checks are often not recognized as CN funds when received at the district office and are deposited in the general fund. Since these costs are paid with CN funds, they must be credited to that fund as well.

VALUE PASS THROUGH (VPT) SYSTEMS

Fee-for-Service, Traditional Model

Fee-for Service (FFS), is a VPT where the pass-through value (PTV) and cost of producing processed end products are reported separately. Schools identify the delivery location, which might be a district warehouse (drop ship), a state warehouse, or a third-party distributor. The price charged is the FFS that includes the cost of additional ingredients, processing, and delivery to the identified location. The processor draws down from the district's account when the invoice is generated for the sale. Changes that occur during shipment and at the time of receipt by the distributor are managed through credit memos. Billing is made directly to the State or RA for the FFS only.

In some States, there is a "forward warehouse" where the processor stores product for delivery to the RA. This has no impact on the sale or responsibility. The forward warehouse is an extension of the processor's facilities.

One concern for processors is when payment is made. When receiving at a district warehouse, payment is made on receipt of invoice. However, if delivery and receipt occur at a third-party distributor, the RA may not pay until the product is delivered to the district, and even then, district accounts payable policies may further delay payment processing. The distributor takes payment terms into consideration when establishing its pricing model. A best practice is to have agreements among all stakeholders so that the cost or discount for payment schedules is clearly understood. While data is limited, it is thought that 90% of districts pay on receipt of the invoice from the processor.

Another concern is liability for loss or damage. The processor is responsible for the value of the product, including the PTV of the USDA Foods until delivered to the identified location. If the receiving location/purchaser is a state warehouse, the state takes title on receipt. The state is then responsible to ensure proper allocation and delivery to RAs. Where a third-party distributor is the delivery location, the title transfers to the district on receipt by the distributor who is acting as an agent for the RA. It is important that the RA identify in writing where their delivery location is. Systems like K12 and Processor Link include this information in their RA database. Therefore, it is critical that an agreement exist between the RA and the third-party distributor to ensure that the distributor is responsible for both the VPT and the FFS until delivered to the RA's facility.

Because the processor has received and used USDA Foods without incurring a cost for the ingredient, and charged the RA only for the additional costs, FFS (through the processor) is the cleanest VPT. Historically, there have been fewer inventory management problems and inventory carry-over with FFS. The FFS is part of the processors "cost model," so all additional costs have been considered. The primary issue here is extended storage. This is a processor issue and should not affect sales, inventory or RA costs. When USDA Foods are received at the RA, the title transfers to them at that time.

Much as a forward warehouse is considered an extension of the processor's facilities, when a third-party distributor is identified as the RAs receiving location, the distributor's warehouse is considered to be an extension of the RA's facilities. All of the terms of a contract between the distributor and the RA should be clearly stated including liability and responsibility, costs for delivery and storage, etc. The RA is responsible

VALUE PASS THROUGH (VPT) SYSTEMS

for the PTV of the goods stored at the distributor and must recover those costs from the distributor for loss or damage. Recovery should include both the PTV and the FFS for lost or damaged goods as well.

FFS when a distributor is involved incurs two invoices to the RA: one from the processor when product is delivered and received at the distributor, and one when the distributor delivers to the RA. The latter invoice is only for the distributor's storage and delivery costs. It is important to note that federal law prohibits applying percentage markups in procurement. Fixed fee contracts are allowable. Therefore, the fee charged is not related to the value of the product.

Traditional FFS where a third-party distributor is involved is not as free from problems as direct ship and state-contracted warehousing. The biggest concern is ensuring that each RA receives the product delivered to the distributor on their behalf, as the RA has already bought and paid for the goods.

RAs should track their USDA Foods and ensure that they receive the goods they purchased. There have been reports that distributors have taken advantage of the "free" USDA Foods products by selling them to customers at the commercial price while selling commercial products to the RA. Setting aside questions of ethics, it is the RA's responsibility to manage their USDA Foods inventory, whether it is stored in the RA's warehouse or held on their behalf at a distributor.

Fee-for-Service Through a Distributor

Fee-for-Service through a Distributor (FFSD) is sometimes referred to as Modified Fee-for-Service.

FFSD is similar to FFS except that under FFSD, the RA receives a single invoice from the distributor, frequently with two cost lines on the invoice: one for the FFS from the processor, and a separate line for the handling and delivery fees from the distributor. Section 7 CFR 250.36(e) requires that processors identify any charge for delivery of end products separately from the fee-for-service on its invoice. RAs should retain the appropriate documentation of pricing and ensure that the accounting department has this information when reviewing invoices.

Product is shipped to the distributor net of the PTV, effectively providing the distributor with lower cost goods. Draw down occurs when the distributor reports the sale to an eligible RA. Transfer of title to the RA occurs when the product is received by the distributor. The RA may contract with the distributor to hold liability insurance on the product until it is delivered to the RA (loss of insurance and/or fair market value of the product).

Net off Invoice (NOI)/Indirect Discount

Net off Invoice is a VPT system affiliated with commercial products. NOI is used for fully substitutable products like cheese, but can also be used for limited substitutable products like poultry. For red meat, NOI requires that the processor have a substitution plan whereby the entire commercial product utilizes a raw ingredient that is equal to or exceeds USDA's specifications including pathogen testing. This may increase the

VALUE PASS THROUGH (VPT) SYSTEMS

cost of goods as commercial products that are not included in the inventory of items that can be sold as USDA Foods may not include ingredients that meet USDA standards.

Under NOI, processors sell commercial products to distributors at the full commercial price. To be eligible for the discounted price for products that include USDA Foods, the commercial product must meet all of the requirements for the USDA ingredient(s) including grading, pathogen testing, and specification. The distributor sells eligible end products (those approved on SEPDS) to eligible RAs (those with entitlement balances) net of the PTV of the USDA Foods. On proof of sale, the processor rebates the PTV to the distributor.

The benefit of NOI to the RA is that they pay only the net price (FFS cost) and a single item code is purchased with or without the USDA Foods ingredient. A challenge to the RA is tracking entitlement. Since the product is commercial (i.e. does not include the discount for USDA Foods) until sold to an eligible RA, the USDA Foods in each case are not recognized until after the sale. With multiple DF items, there may be many permutations of price and drawdown. This adds complexity to the process.

Under NOI, the distributor bears the cost of PTV upfront. The benefit to the distributor is two-fold. NOI increases sales volume by making processing more available to customers. In theory, NOI also decreases the number of SKUs by combining USDA Foods and non-USDA Foods items under a single code.

Title tracking is more difficult with NOI. USDA has operated for several years under a management policy that lacks regulatory authority that allows USDA to retain title until sale of eligible end products is made to an RA. This is necessary in that the commercial product doesn't contain USDA Foods until the sale is made. The 2014 Farm Bill included the legislative authority that will allow rulemaking to proceed on this issue.

RAs divert USDA Foods to processors. The RA's decision as to which processor to send its diverted USDA Foods is not necessarily tied to a procurement at the time the district submits its requests to the state. In some cases, the diversion occurs prior to a procurement process and award. If the procurement results in award to a processor other than the one to which the diversion was made, either there is no draw down of the inventory at the original processor, or a transfer must be made to the successful processor. If the RA does not vigilantly monitor entitlement utilization, they may not be aware of existing inventory at a processor.

NOI also requires careful monitoring and auditing of entitlements by the distributor. The commercial price net of the PTV can only be billed if the RA has inventory at the processor. There is a significant challenge in this respect. Inventory/entitlement balances are only as current as sales data is uploaded. The processor can only draw down inventory when a sale is reported. If a distributor is delayed in reporting sales, the processor may show inventory that has already been sold. If an RA is using multiple distributors, one may discount a sale for which no inventory exists. Third-party systems like K12 and ProcessorLink facilitate data transfer but are still dependent on the timely reporting of sales.

FOOD SAFETY/EMERGENCY PREPAREDNESS

Food Safety is a critical issue for all of the partners in the USDA Foods programs. The first line of defense is keeping unsafe USDA Foods out of the supply chain. But when an incident occurs, or is believed to have occurred, how USDA, SDAs, processors, distributors, and RAs respond is extremely important. Systems for addressing food safety issues, particularly in the event of recalls is ever evolving, and readers of this manual should regularly check the USDA websites and their SDA for updates.

In the event that a USDA food purchased by USDA is sent to a processor and is subject to a recall, notification procedures have been developed by the FNS Office of Food Safety to ensure that products produced from those products are not served in schools. All participants in the USDA processing program should consult this manual, which can be found on the Institute of Child Nutrition website: "Responding to a Food Recall." In the RA section of this manual, "Participant's Responsibilities," it is emphasized that all parties should adhere to the USDA policies for responses to recalls and that 24/7 contact information must be provided in all contracts.

Managing Recalls

States

Follow recall procedures established by USDA and develop and maintain a system to communicate hold and recall information in a timely manner.

Recipient Agencies (RAs)

Follow recall guidance as provided by FNS Office of Food Safety. RAs should be prepared, have recall procedures in place, and train staff on the recall procedures. RAs should take inventory of the recalled product and report the information to the SDA. Once the RA is notified about a recall, the product(s) should be isolated and labeled so that it is not used. The RA should return the inventory information to SDAs as soon as possible, within 48 hours or less. The SDA will compile the information and report it to FNS.

USDA Recall Resources

The USDA developed a handbook with instructions for responding to a recall. The document can be accessed at: <https://www.fns.usda.gov/ofs/responding-food-recall-procedures-recalls-usda-foods> In the event of a recall, the SDA will notify the RA, processors, and/or distributors of the recall.

The USDA Foods Recall Preparedness & Response Checklist is found here. Follow the links below for SDA and RA recall information:

- SDA Recall Information: <https://fns-prod.azureedge.net/sites/default/files/ofs/SDA-USDA-foods-recall-checklist.pdf>
- RA Recall Information: <https://fns-prod.azureedge.net/sites/default/files/ofs/RA-USDA-foods-recall-checklist.pdf>

Distributors/Processors

Distributors should have implemented a Hazard Analysis Critical Control Point (HACCP) Plan and have the ability to provide specific information within this plan relating to the recall of products which contain USDA Foods upon request of the processor. It is further recommended that that distributors have a Food Safety Program in place which is part of the Food Safety Modernization Act's "Preventive Controls."

The following provisions are recommended for inclusion in the plan or in the contract between the processor and distributor:

- Evidence of a product traceability system from product receipt to delivery to designated site.
- Evidence of conducting a mock recall including USDA Foods product a minimum of one time per year.
- Provide processor with 24/7 accessibility of staff in the event of a USDA Hold/Recall-Individuals and contact numbers.
- Agree not to contact individuals' RAs prior to discussion with processor verifying product involved in the recall (processor to provide 24/7 contact information).
- Procedure to ensure recalled product is not shipped to RAs (FFS through a Distributor) and/or commercial customers (NOI).
- Notification capability to provide updates on USDA Hold and Recall data for customers.

DISASTER PLANNING

The Food and Nutrition Service (FNS) coordinates with State, local, and voluntary organizations to:

- Provide food for shelters and other mass feeding sites.
- Distribute food packages directly to households in need in limited situations.
- Issue Disaster Supplemental Nutrition Assistance Program (D-SNAP) benefits.

As part of the National Response Framework, FNS provides nutrition assistance to those most affected by a disaster or emergency. When state agencies notify USDA of the types and quantities of food that relief organizations need for emergency feeding operations, FNS supplies food to disaster relief organizations such as the Red Cross and the Salvation Army for mass feeding or household distribution. FNS also authorizes states to provide D-SNAP benefits (<https://www.fns.usda.gov/disaster/usda-foods-disaster-assistance>).

State Emergency Notification System (SENS)

The USDA State Emergency Notification System (SENS) is a tool that allows state agencies to rapidly communicate critical food recall information to RAs so they can remove contaminated food from distribution and keep children and families safe.

About SENS:

- Uses current technology to send rapid notifications
- Simultaneously notifies RAs
- Verifies that notifications are received
- Is free to state agencies – the cost of SENS is covered by the USDA
- Allows flexibility – use SENS for recalls and more

RECIPIENT AGENCIES (RAs)

Procurement

Federal procurement requirements are based on the simple premise that all procurement must be fair, open, and competitive. Regardless of the procurement method used, awards must be made only to responsive and responsible offerors. Responsive means that the offeror and their offer meet the requirements of the procurement. Responsible means that the offeror has the means to execute the procurement – they have the ability to provide the goods and/or services required.

Because school foodservice programs are the recipients of billions of dollars in federal grants, procurement is subject to federal law. It is important to note that all RA procurement is subject to federal law even though not all school foodservice revenue comes from the federal government. A school district cannot segregate revenue by source and apply different rules to the non-federal portion.

In general, federal law falls into two categories – statutes and regulations. Statutes are the laws passed by Congress and signed by the President. By and large, statutes set broad policy for the government. Federal agencies, like USDA, then write regulations to implement the statutes.

The laws governing school meal programs, including procurement, are contained in two statutes – the Richard B. Russell National School Lunch Act and the Child Nutrition Act of 1966. Regulations are found in Title 7 of the Code of Federal Regulations - Agriculture. Distributing agencies and recipient agencies must comply with procurement regulations in 7 CFR Part 30176 or 3019, as applicable, to obtain services of commercial enterprises to conduct donated food activities. Procurement must also ensure compliance with other applicable regulations and the distributing agency' written agreement with FNS.

This manual does not provide detailed training on basic procurement. Readers are encouraged to use one of the resources identified below. However, in general, sound competitive practices are established procedures that are consistently followed resulting in procurements that are conducted fairly, with integrity and uniformity, so that the goods and services procured meet the needs and quality standards of the purchaser at the best possible price. Sound competitive practices foster full and open competition and are free from real and perceived conflicts of interest.

Specifications for goods and services should be as detailed as possible to ensure receiving exactly what the district requires. Estimated quantities should be as accurate as possible and updated regularly. Forecasting quantities and guaranteeing minimums will ensure adequate production levels and may decrease pricing.

Specifications should not limit or prohibit any responsible vendor from responding.

Procurement Methods

There are several ways to meet the fundamental principles of procurement - fair, open, and competitive purchasing,

RECIPIENT AGENCIES (RAs)

Invitation for Bids (IFB) is a formal method used when the only significant point of differentiation between vendors is the price.

Requests for Quotation (RFQ) is similar to bidding except that it is less formal. In some cases, it is much less formal such as by simply calling several vendors and asking for the price on the goods or services a district is requesting. This is utilized when purchases are under the federal, state, and/or local bid thresholds.

A Request for Proposals (RFP) differs from bids and quotes in that there are other factors that are considered in making an award. For example, service may be of critical importance, or the skills and experience of the vendor may be required. While RFPs are frequently used when procuring services, there are a growing number of districts that are using RFPs to obtain goods when they are looking for additional services as part of the contract.

A Request for Information (RFI) is a method of identifying the range of possibilities available when a district is unsure what to include in their procurement. As with all forms of procurement, RFIs must be open to all potential respondents. The RFI might be used to prequalify vendors moving forward. USDA has determined that a district cannot make an award based on an RFI, but must issue a subsequent IFB or RFP that is more exact.

Sole Source Procurement are very rare and there must be clear and compelling reasons for engaging in this type of procurement. Approval by the state agency is required for sole source purchases.

Some jurisdictions allow what is known as an Intergovernmental Agreement or a “**piggyback**” clause. This type of contract allows other entities to make purchases against a legally awarded contract by the initiating agency. For example, a school district may award a bid for milk and dairy products that other districts in the area may use for their own milk purchases. There are three considerations to these contracts. The **first** is that state law and local/district rules must allow this, and both the issuing district and the district that wishes to piggyback on the contract must agree. **Second**, the vendor must agree as well. In one model, all potential agencies are listed in the IFB or RFP, and offerors check which, if any, of these agencies they are willing to serve. **Third**, is that the agency wishing to take advantage of a piggyback contract must accept it as written. They cannot negotiate changes to the award. Vendors accepting piggyback options frequently include a broad range of options in their contracts to allow flexibility.

The following topics are mostly specific to USDA Foods that are recommended to be addressed in bid documents so that the bidding process is an easier and more cost-efficient process for both the RA and the manufacturer/distributor. They help ensure consistency with the basic principles of fair, open, and competitive procurements.

Notice and publication: Every potential bidder must be given an opportunity to respond. RAs are legally required to publish/post all IFBs and RFPs. Prospective bidders may be notified via advertisement in national or local newspapers, email, facsimile, and/or posted on a designated website for retrieval

RECIPIENT AGENCIES (RAs)

Factors used for evaluation: Clearly list the factors that will be used to evaluate and determine the winner of the bid. Any clarifications to the IFB or RFP provided to prospective bidders during the solicitation phase must be provided in writing to all. The factors should reflect their importance to the program, so factors should be weighted. With respect to USDA Foods, factors might include years of experience in processing, existence of current NPAs, a clean record with USDA for food safety, and compliance with reporting and record keeping. They might also include the means used to manage and communicate inventory status, such as using a well-supported third-party software program.

Forecasting: The process of estimating future quantity needs for purchasing by using historical data and other factors to determine projections. Forecasting is a detailed task and requires planning. It involves reflecting on past purchases, a consideration of present menus-purchasing conditions, and estimating future needs.

Timing: It is valuable to determine when a new contract period starts, how long it lasts, whether the contract may be renewed and if so, how many times, and escalator clauses to allow adjustments that reflect changing market conditions.

Product Specifications: Beyond standard requirements for purchasing goods, a USDA Foods IFB or RFP should include language related to the use of donated USDA Foods. Also, if desired, include language about offering items that have commercial equivalents so there is consistency throughout the term of the bid with or without USDA Foods. Where USDA Foods are to be used, the specification should indicate USDA ingredient(s) that will be processed. Indicate direct diversion or a backhaul arrangement. We recommend avoiding backhauling if at all possible.

USDA has a certification program called CN Labeling. THERE IS NO REQUIREMENT that USDA Foods need to be CN labeled. The value and cost of the CN Label is not part of this manual.

To meet federal menu planning requirements, it is important to ask for nutritional statements for all USDA Foods processed items being bid.

Yield: There are several methods for calculating the yield of donated USDA Foods in processing. A discussion of these different methods can be found elsewhere in this manual. It is important to request documentation of the method each bidder uses. The effect of yield calculations can be seen on the SEPDS, so you might consider requesting that the bidder submit a copy of the current, approved SEPDS with their response.

Quantity desired: You should include a realistic estimate of the quantity of each item you anticipate purchasing for the term of the bid. However, actual purchases may be contingent on the availability of the USDA Foods items used in producing the items. The procurement should clearly state this. If bidding both commodity-processed and commercial products, include the

RECIPIENT AGENCIES (RAs)

total quantity needed, with language that requires delivery of the processed item whenever donated USDA Foods are available.

Value pass-through method: VPT is discussed elsewhere in this manual. However, it is critical to include a requirement that responders identify which one they will be using and that the SDA has approved this method in your state.

Record keeping: As previously mentioned, many processors use one of several third-party systems for managing inventories. The procurement should request information about which third-party program the bidder uses or what method it uses to track USDA Foods and entitlement dollars. You might also ask if there are any additional costs to you for these services.

Title to product: Title donated foods transfers to the distributing agency or recipient agency, as appropriate, upon acceptance of the donated foods at the time and place of delivery. You should include language in your solicitation that you are not responsible for USDA Food products until you have received them, either in your district or to your approved distributor. Similarly, any storage or distribution bid should include language regarding liability for donated USDA Foods.

Buy American: As discussed elsewhere in this manual, federal law requires that RAs only purchase USDA Foods that are produced and package domestically. Regulations require that all procurement clearly state this.

Suspension and Debarment: This is also a technical issue. However, it is important to include language that prohibits companies that are debarred from doing business with USDA as they may not participate in the procurement. The RA can obtain this assurance by checking the System for Award Management (<https://www.sam.gov/SAM/>) and documenting this process by printing a copy of the status. In addition, or in lieu of, the RA can have the bidder certify that they are not debarred, suspended, or proposed for debarment through the collection of a certification, or by adding a term or condition in any lower tier award agreement to the bidder requiring disclosure or non-procurement debarment and suspension status. The current “USDA Certification Regarding Debarment Suspension, and Other Responsibility Matters” form can be found at: <https://www.aphis.usda.gov/library/directives/pdf/aphis-2280-1.pdf>

Market Basket

Market basket is used when RAs award contracts based on an evaluation of the lowest price a vendor can offer for a representative sample of goods the program operators wish to obtain. This practice, sometimes called a “market basket” analysis, is used to evaluate bids/proposals to a solicitation for awarding a contract. When using this type of solicitation award analysis, FNS recommends the aggregate value be 75% or more of the estimated value of the contract to be awarded.

Market basket analysis is permissible when procuring processed end products containing USDA Foods purchased using the Net-Off-Invoice (NOI) value pass-through system. Market basket analysis is not

RECIPIENT AGENCIES (RAs)

appropriate in fee-for-service processing contracts as these are service contracts and do not lend themselves to this type of analysis.

Further information can be found in SP 04-2018 “Market Basket Analysis when Procuring Program Goods and Modifying Contracted-For Product Lists” published January 2018.

Rules to Note

There are a few special issues that are addressed in the statutes, regulations, and guidance to make note of. Copies of policy memos referenced here are included in the appendices.

Buy American – This is the requirement that all goods purchased for school meal programs must be predominantly produced, processed, and packed in the United States. The Buy American provisions are part of the school lunch act in section 12(n), and the implementing regulations are 7 CFR 250.23. There are also a number of policy memos which address Buy American requirements either stand alone or as part of Q & A guidance on procurement.

Inventory Management – An ongoing concern in the USDA Foods program is ensuring the timely use of USDA Foods distributed to RAs. Sections 7 CFR 250.14(f)(2) and 7 CFR 250.30(n) both address this issue by limiting inventory not to exceed six months usage. Also, policy memos issued in 2012 (FD 107 and FD 064 rev.) add specific guidance on this.

Value of Inventory – As is discussed elsewhere in this manual, there are several ways that the value of USDA Foods is determined. This becomes very important during both program and financial audits. Policy Memo FD 104 issued in 2012 addresses this.

Transfer of Title - Title to donated foods transfers to the distributing agency or RA, as appropriate, upon acceptance of the donated foods at the time and place of delivery. Title to donated foods provided to a multi-state processor, in accordance with its National Processing Agreement, transfers to the distributing agency or recipient agency, as appropriate, upon acceptance of the finished end products at the time and place of delivery, however, when an RA has contracted with a distributor to act as an authorized agent, title to finished end products containing donated foods transfers to the RA upon delivery and acceptance by the contracted distributor. Notwithstanding transfer of title, distributors and RAs must ensure compliance with the requirements of this part in the distribution, control, and use of donated foods. Section 7 CFR 250.11(c) addresses this issue.

Prompt Reporting of VPT Sales – It is the distributor’s responsibility (or manufacturer if sales are direct) to post VPT sales of USDA Foods end products to the manufacturer reporting agency (i.e. ProcessorLink, K-12 Foodservice, etc.) Prompt reporting is imperative to ensure proper draw down of District entitlement balance.

Food Service Management Companies – FSMCs are a special case in school foodservice, and there are regulatory sections governing them in both the program area (7 CFR 210.16) and food distribution (7 CFR 250.17(b), 50-54).

RECIPIENT AGENCIES (RAs)

Cooperatives and Buying Groups – An increasing number of RAs are joining together through co-ops and buying groups. USDA issued a policy memo (SP 35-2012) in June of 2012 with guidance addressing this.

Bidding Commercial and Processed Goods with One Solicitation – RAs may elect to have the same distributor manage both commercial and USDA Food processed items. USDA provides guidance and instructions for this in FD 119.

Geographical Preferences – There is a growing emphasis on the purchase of locally grown products; Child Nutrition programs may apply a geographic preference when procuring locally grown or raised agricultural products. USDA has published several guidance and Q&A documents on this issue. Refer to the USDA website for current information.

Resources

The most important resource for learning about procurement is the law. Procurement law for programs administered by USDA can be found at 7 CFR 3016.36. Go to <http://www.gpo.gov/fdsys/granule/CFR-2012-title7-vol15/CFR-2012-title7-vol15-sec3016-36> to read about the procurement regulations.

Procurement regulations specific to Child Nutrition are at 7 CFR 210.21 and can be found at: <https://www.fns.usda.gov/farmtoschool/usda-procurement-regulations>. This section refers back to 7 CFR 3016.36 as its authority. The regulations for food distribution are provided at 7 CFR 250.

Additionally, USDA issues guidance and policy memos that provide clarification and explanations for regulations. These policy memos carry the weight of law. There are two databases of the guidance materials, one for school meals and one for food distribution. They can be found at <https://www.fns.usda.gov/nslp> and <https://www.fns.usda.gov/fdd/regulations>, respectively. It is worth reviewing the lists of titles for these policies to familiarize yourself with their range of topics. Also worth noting is that policies may be updated from time to time, but will retain their original reference number. For example, a recent update affected FDD 007, first published in 2003. Look for “revised” in older policies.

The Institute of Child Nutrition (ICN), formerly the National Food Service Management Institute, is a federally funded program based at the University of Mississippi. ICN provides a great deal of information, research and training for school meal programs. In addition, the ICN offers three online procurement training modules (USDA State Agency Guidance to Procurement Topics 1, 2, and 3) that are now available to all. This training is available at: <https://theicn.org/icn-resources/>

School Nutrition Association (SNA) has developed a toolkit to assist in procurement. The School Nutrition Procurement Toolkit includes a number of sample forms and materials that can assist RAs in building a strong procurement system. This toolkit can be found at: <http://procurement.schoolnutrition.org/>

Federal procurement law for grantees and sub-grantees (states and schools) defers to states and local agencies for the final word in the legal requirements for purchasing as long as the state or local rules are no

RECIPIENT AGENCIES (RAs)

less restrictive than the federal requirements. This is known as the federalism principle. The most common example of the federalism principle is what is commonly referred to as a “bid limit.” A bid limit is the maximum amount an agency can spend without utilizing a formal procurement method. The federal bid limit, which they refer to as small purchase threshold, is \$150,000. That is, any purchase using federal funds with a value of less than \$150,000 does not require a formal bid or proposal. However, most States and many school boards set a much lower limit on the buyer’s authority. It is as important that RAs understand their local and state procurement laws and guidelines as federal law.

American Commodity Distribution Association (ACDA) has worked with USDA for many years to develop materials for the USDA Foods program, including this manual. Many resources are available at: <http://www.commodityfoods.org>.

Co-Ops and Buying Groups

Many school districts have found great benefit from joining a purchasing cooperative or buying group. In fact, USDA recommends cooperative purchasing as a means to reduce costs by increasing the volume of procurement contracts. However, as with all purchasing decisions, districts should weigh all of the issues and do what will be in the best interest of the program.

Types of Co-ops

There are a number of ways that school districts can organize together to save money in their procurement processes. Some co-operative purchasing focuses on USDA Foods and processing only. Others are used for a broader range of products and services. The fundamental premise in cooperative purchasing is to lower costs by increasing the volume. When vendors reduce their operating costs or improve the economies of production through volume, customers benefit. For this manual, we will only look at USDA Foods co-ops, but the same principles apply elsewhere.

One of the benefits of USDA Foods co-ops is their ability to combine the ADP of the participating agencies. Most USDA Foods are distributed in truckload quantities. So pooling ADP increases what may be offered to the co-op.

In its simplest form, a co-op can be a group of school districts within a geographic area agreeing to pool their purchasing power through a single agency. In this case, the school boards of all the districts agree to abide by a common procurement, most likely an Invitation for Bid (IFB). Only one district executes the procurement on behalf of all the districts. The participating agencies jointly agree on the specifications for each product on the bid list and agree to abide by the majority or consensus decision. They then estimate the quantities to be purchased by the combined agencies.

There are two significant issues that must be addressed in this type of co-op, although they are common to most group buying. First is the restriction of choice. When a school district decides to participate in a

RECIPIENT AGENCIES (RAs)

cooperative buying program, it must agree to abide by the co-op's decisions. If each district can order any items they want, regardless of the group's common list, the volume benefits diminish for the vendor and, hence, prices reflect this. Second, if the successful vendors are required to manage USDA Foods inventory balances and billing for each district individually rather than the buying group as a whole, there is no savings on administrative costs. Similarly, if the vendor is expected to deliver to each district rather than a single, common delivery point, there is no savings to pass on to the member districts.

In the lead district model, the participating agencies' boards approve the transfer of their USDA Foods entitlement to the lead agency and pay that district for its share of the costs and charges.

A variance on the above model brings a third-party administrator to the table. There are several examples of both for-profit and non-profit co-op buying administrators. In all cases, however, the administrator requires compensation for their efforts. The most benign model has the participating agencies pay a prorated share of the operational costs based on their share of the total volume of USDA Foods they receive. Others require an annual fee and a per case cost of either the USDA Foods shipped to the co-op and its processors, or end products delivered to the recipient agencies.

A question arises in cooperative buying groups regarding their authority and their responsibility. 7 CFR 250.3 includes a definition that says that if a company, whether for-profit or non-profit, manages any aspect of the recipient agency's program, it is considered a food service management company (FSMC) and subject to regulations governing FSMCs. Some third-party administrators say that they are only providing administrative services and not making any decisions (managing) procurement. It is important to have roles and responsibilities clearly defined both in principle and practice.

Food Service Management Companies (FSMC) and Donated Foods

FSMCs must use all USDA foods received in the RAs food service or must use commercial substitutes in place of USDA foods only as permitted in 7 CFR 250.51(d). FSMCs must meet the requirements in 7 CFR 250.14(a) of this proposed rule for the safe storage and control of donated foods.

Inventory Systems

Every partner in the USDA Foods program has a responsibility for managing inventory. Federal law limits inventory at any point in the process to no more than six months' usage on hand. This limit applies to individual RAs as well as aggregate inventory in a state. It applies to individual donated USDA Foods, as well.

Let's look at a hypothetical example – coarse ground beef which is a bulk item diverted to processors in 42,000 lb. truckloads. Processors sell end products like cooked beef patties or spaghetti sauce with ground beef to schools. In theory, RAs divert the exact amount of USDA Coarse Ground Beef to their processor of choice to produce the number of cases of products they need for the school year. Read the section on planning for tips on how to do this accurately.

Sometimes an RA doesn't use all of the products they had planned. Over time, their inventory of coarse ground

RECIPIENT AGENCIES (RAs)

beef at the processor builds up. Sometimes an RA changes vendors after they have made their diversion requests and may not be able to transfer the existing balance to the new processor. Sometimes, RAs may forget to consider their existing inventory at a processor when making determinations for the new school year.

Regardless of the cause, processors and RAs are responsible for reducing inventory of USDA Foods levels to less than a six month's supply. States are responsible for monitoring inventory levels at both the processor and the RA, and facilitating inventory management through enforcement of the regulations.

There are two primary ways of controlling inventory levels. The first is not to send additional quantities of a USDA Food to a processor whose inventory is too high. This may be applied broadly to the processor, or it may be applied to individual RAs whose balance is the cause of the excess inventory. For example, if, based on usage history, a processor has a full year's inventory of coarse ground beef in storage, even though RAs request diversion of additional pounds to that processor, the SDA can refuse to place those orders until the inventory comes into compliance. Or, if an individual RA has enough coarse ground beef to meet its historical usage for more than six months at a processor, additional requests for diversion to that processor by that RA may be declined or delayed by the state.

The second way to reduce inventory is through transfers. Transfers can be between processors, between states or between RAs. Let's take a brief look at each.

Processor to processor transfers – If an RA selects a new processor for the new school year, they may request that their existing balance at the old processor be transferred to the new processor. Frequently, such transfers occur on paper as the changes between processors by RAs may balance each other.

Transfers between states may occur if one state's inventory exceeds its six-month limit. States may transfer excess inventory to another state that can use the product more efficiently.

All transfers must be managed by the SDA.

Detailed guidance about inventory management can be found in USDA Policy Memos. FD-064 was updated in early 2012.

Single Bank Inventory Management

This concept was introduced in Policy Memo No. FD-020 (see Appendix No. 10). The main premise of this policy was to eliminate the obligation of the RA to maintain and report separate inventories and values of commercial and USDA Foods. Since USDA has promoted commercial labeling of USDA Foods and the increase of processed raw USDA Foods by commercial vendors, it had become increasingly difficult for RAs to discern the difference between the two. This policy represents a paradigm shift in how USDA Foods are valued once the RA receives them. In essence, once the RA receives the USDA Foods items, they become indistinguishable from commercial product. As a result, the concept of backhauling has changed. Since the majority of states now participate in Single Inventory, the burden of responsibility is now the RA's to require the processor to account for inventory tracking of backhauled product, instead of RAs needing their SDA's permission to do this.

RECIPIENT AGENCIES (RAs)

Food Claims on Losses

There is a requirement that 100 percent of the substitutable USDA Foods product given to the processor actually be contained in the finished end product returned to the eligible RA. The processor guarantees a fixed number of cases will be produced using a fixed amount of meat or poultry. Any manufacturing losses (the difference between 100% and the manufacturing yield) are to be made up by the processor with commercial USDA Foods of domestic origin and equal or better quality than the USDA Foods that was provided.

The processor is responsible for the value of the product, including the PTV of the USDA Foods until delivered to the identified location. If the receiving location/purchaser is a state warehouse, the state takes title on receipt. The state is then responsible to ensure proper allocation and delivery to RAs. When received at the RA, title transfers to them at that time.

Much as a forward warehouse is considered an extension of the processor's facilities, when a third-party distributor is identified as the RA's receiving location, the distributor's warehouse is considered to be an extension of the RA's facilities. All of the terms of a contract between the distributor and the RA should be clearly stated including liability and responsibility, costs for delivery and storage, etc. The RA is responsible for the PTV of the goods stored at the distributor and must recover those costs from the distributor for loss or damage. Recovery should include both the PTV and the FFS for lost or damaged goods as well.

USDA Foods Complaint Process

USDA endeavors to provide quality products and services to RAs. However, as is true with any program, particularly one as large and complex as the USDA Foods program, problems occur. USDA has a process in place to address problems when they occur.

School Food Authorities which operate Child Nutrition Programs should report USDA Foods Complaints to their State Distributing Agency (SDA) as soon as a defect is found with a USDA Food. If the product does not meet the expectations, you should document the necessary information:

1. Sales Order Number
2. Vendor/Product (Lot #, BIUB date, pack date, etc.)
3. Description of issue
4. Quantity of unacceptable product
5. Injuries or Illness occurred

USDA Foods Compliant Procedures for agencies can be found at: <https://www.fns.usda.gov/fdd/how-file-complaint>.

The SDA will decide whether the complaint can be resolved at the State level, and if not, the SDA will enter the complaint into the Web-based Supply Chain Management (WBSCM) Application.

Audit Requirements

In-state processors must obtain an independent Certified Public Accountant (CPA) audit in the first year USDA Foods are received for processing, while multi-state processors must obtain an audit in each of the first two years USDA Foods are received for processing. After this initial requirement period, in-state and multi-state processors must obtain an CPA audit at a frequency determined by the average value of USDA Foods received for processing per year. Processors must pay for their required audits.

1. Annually, if receiving more than \$5,000,000 in USDA Foods;
2. Every two years, if receiving between \$1,000,000 and \$5,000,000 in USDA Foods; or
3. Every three years, if receiving less than \$1,000,000 in USDA Foods.

The value of USDA Foods used in determining if an audit is required is the contract value shown on the SEPDS multiplied by the pounds of each USDA Food received. The audit procedures are contained in FNS Audit Guide for Processors.

Audit results must be submitted to the SDA or FNS, as applicable, by December 31st of each year in which an audit is required. Any deficiencies must be corrected. FNS may prohibit further diversion of USDA Foods for processing, terminate the processing agreement, and collect the surety bond or letter of credit for non-compliance with the audit requirement or failure to correct identified deficiencies.

Inventory Management

Current and proposed federal regulations require the processor to maintain 6-month inventory levels or less. Please reference FD-064: Processing Management of Donated Food Inventories at Processors issued March 20, 2012.

FD-064:

Application of the Six-Month Inventory Limit:

The six-month inventory limit established at 7 CFR.30 (n) is applicable to wide inventory of donated foods at processors and also to individual SFA donated food inventories at processors. For the purpose of calculating inventory levels, SDA's and processors must use the school year, which begins on July 1 and ends on June 30 of the following calendar year. The average monthly usage is determined by taking the year-to-date usage reported on a processor's June monthly performance report (for the period ending June 30) and dividing by twelve months. Multiplying the resulting number by six will produce the allowable six-month inventory level.

7CFR 250.30 (n)

Inventory controls. (1) Distributing agencies shall monitor processor inventories to ensure that the quantity of donated foods for which a processor is accountable is the lowest cost-efficient level but in no event more than a six-month supply based on the processor's average monthly usage, unless a higher level has been

PROCESSORS

specifically approved by the distributing agency on the basis of a written justification submitted by the processor.

The key to maintaining inventory at a six-month level is working closely with all stakeholders. Request permission, in writing, when necessary, from the SDA to exceed these levels. The following guidance will assist in this process.

1. Processors are to work directly with RAs to develop a USDA Foods specific demand plan for diversions, based on RA's menu needs and potential carry over balances.
 - a. Planning should occur prior to SDA surveys (which may be extended as they are now Jan-March with changing USDA deadlines.)
 - b. Processors should work with their sales agents (direct, broker, and distributor) educating them on the importance of demand planning with RAs. USDA Foods diversions need to coincide with pre-planned menu needs to ensure that the RA is not over-sold.
 - c. Processors may provide USDA Foods Calculators to RAs to assist in the calculation of the volume of raw USDA Foods needed to produce finished product (servings, cases), for diversion to meet next year's menu needs.
 - d. Annual Plan (for diversions).
 - e. Monthly Plan (for drawdown).
2. Processors must have an active inventory protection instrument (surety bond or letter of credit) on file with USDA FNS (for National processors) or the SDA (for in-state processors) prior to receiving any USDA Foods for processing.
 - a. Inventory protection ensures processor performance and covers inventory liability.
 - b. The amount of inventory protection required is determined annually and must be received by FNS or the SDA prior to USDA Food purchases for the upcoming school year.
3. Processors are to monitor inventory levels for RAs on a regular basis (monthly) to ensure consistent utilization throughout the school year. Processors need to monitor SDA aggregate inventory as well, to ensure the six-month inventory level, based on average monthly usage, is not exceeded.
 - a. Processors need to identify RAs with no immediate drawdown early in the school year (within 60 days of startup), to ensure USDA Foods are processed and finished products are shipped.
 - i. Contact the RA to find out why orders have not been placed.
 - ii. Resolve issues – start shipping.
 - b. After 90 days, processors are encouraged to communicate in writing, to zero and low drawdown RAs, the need to start utilizing USDA Foods pounds on hand.

PROCESSORS

4. Processors are to work with the SDA to ensure that their aggregate inventory levels do not exceed the average usage for a six-month period. (7 CFR section 250.30). Monitoring individual RA usage will assist in this effort.
 - a. Follow the state outlined procedure for maintaining inventory levels.
 - i. Review data with the SDA on RAs that are not utilizing diverted pounds and their response to inquiries.
 - ii. SDA designates transfer of underutilized pounds to eligible RAs or another state.
 - b. When necessary, set up “state” account to hold pounds for re-allocation. Work Cooperatively with SDA to resolve instances of perceived RA and state excessive inventories.
 - c. Processors should be aware that individual states may have implemented “sweep” procedures to deal with excess inventories.
 - d. SDA’s may require written documentation from processors addressing carry over inventory to the next school year. (reference 7CFR 250.3 (n))

Performance Monitoring

It is critical that all the partners in processing USDA Foods area be accountable for their part of the program. Like all purchases, RAs must ensure that they are, in fact, receiving what they order at the price agreed to. This includes monitoring vendors’ performance. In the case of USDA Foods, this also includes tracking the food and making sure the agency receives the full value of the donated food.

SDAs bear the greatest responsibility for monitoring processor performance. They do this through Monthly Performance Reports (MPR). Each MPR must be reconciled against sales, transfers, receipts and inventory data, and discrepancies must be resolved. A core element in the USDA Foods program is that federal dollars, whether the dollars or the USDA Foods they buy, are accurately accounted for.

Monthly Performance Reports

Reports submitted monthly by the processor to the Distributing Agency detailing receipts of USDA Foods pounds, sales of finished end products to Recipient Agencies, and information on the inventory of USDA Foods.

Manufacturer’s Product Formulation Statement (PFS)

- Guidance for Accepting Processed Product Documentation for Meal Pattern Requirements (11/28/2014)
- PFS Tip Sheet - Evaluate if the Document is Acceptable
- PFS for Meat/Meat Alternate Product
- PFS for Documenting Fruits/Vegetables

PROCESSORS

- Sample PFS for Vegetables
- Sample PFS for Fruits
- PFS for Documenting Grains
- Crediting standard (16g) required Beginning SY 2013/2014
- Sample PFS for Grains

Please visit: www.commodityfoods.org where you will find many helpful documents under Processing. Members may access additional documents under the Members Only section. Once there, scroll down to Proprietary Processing Forms.

Distributor Agreements

See Distributor Responsibilities

Authorized Agents

When an RA has contracted with a distributor to act as an authorized agent, title to finished end products containing donated foods transfers to the RA upon delivery and acceptance by the contracted distributor. Notwithstanding transfer of title, distributors and RAs must ensure compliance with the requirements of this part in the distribution, control, and use of donated foods. Section 7 CFR 250.11(c) addresses this issue.

Fee-for-service through a distributor is used when the processor ships multiple pallets of product to a distributor with a breakout of who owns what products. What is commonly known as modified fee-for-service is used when the recipient agency has an authorized agent bill them for the total case price.

Pooled vs. Non-Pooled Inventory

The USDA *discourages* the use of “Pooled” inventory. “Pooled Inventory” is when an RA orders food to be to a processor. The USDA delivers food to processor who manufacturers end products. The distributor submits orders for finished products to the processor who delivers end products to the distributor. Since inventory is “Pooled,” a title transfer cannot occur. The RA submits an order and the distributor delivers the end product to the RA. The distributor notifies the processor of delivery to a specific RA. The title transfer of end products containing donated food occurs from USDA to RA.

The USDA recommends the use of “Non-Pooled” inventory. “Non-Pooled” inventory is when the RA orders food to be delivered to a processor. The USDA vendor delivers food to the processor and the RA submits orders for finished end products to the processor and/or distributor. The processor manufacturers the end product and delivers it to the distributor and/or RA. A specific RA is assigned to each product. The title transfers from the USDA to the RA.

LIST OF APPENDICES

[Final Rule released May 1, 2018](#)

[Click on the policy number to access the policy]

ACDA Recommended Forms

<http://www.commodityfoods.org/processing>

FDD Policy Memos

For a copy of all FDD policy memos, please visit: <https://www.fns.usda.gov/nslp>

| Policy# | Program | Subject |
|--------------------------------|---|--|
| 83 FR 18913 | Food and Nutrition Services | Revisions and Clarifications in Requirements for the Processing of Donated Foods |
| FD-002 | NSLP, CACFP | Determining School & Child Care Commodity Entitlements |
| FD-007 | NSLP, Processing | Sales of End Products through Commercial Distributors Indirect Discount and Net Off Invoice |
| FD-023 | NSLP | Accounting for Donated Foods in cost-Reimbursable Contracts Between School Food Authorities and Food Service Management Companies. |
| FD-049 | NSLP, Processing | Substitution and Valuation of USDA Cheese |
| FD-062 Revised | CSFP, FDPIR, TEFAP, NSLP, CACFP, SFSP, NSIP, Processing, CIs, SCs | Electronic Receipting for USDA Direct and Multi-Food Shipments |
| FD-064 | NSLP, Processing | Management of Donated Food Inventories at Processors |
| FD-067 Revised | NSLP | School Food Authorities Acting as a Collective unit in the Control and Use of Donated Foods |
| FD-080 Revised | NSLP, SFSP, CACFP | Guidance in Crediting for, and Use of, Donated Foods in Contracts with Food Service Management Companies |
| FD-081 | SFSP | Distribution of Donated Foods to Service Institutions Participating in the Summer Food Service Program |
| FD-084 | NSLP, CACFP, SFSP | Use of Donated Food in the National School Lunch Program and Other child Nutrition Programs. Cancelled Policy Memo FD-060. |

LIST OF APPENDICES

| | | |
|--------------------------------|---|--|
| FD-103 | NSLP, Processing | Waiver of Requirement to Submit Copies of Refund Requests and Payments with State Monthly Performance Reports |
| FD-104 | NSLP, CACFP, SFSP, CSFP, FDPIR, TEFAP, CI | Value of USDA Donated Foods for Audits |
| FD-107 | NSLP, CACFP, SFSP, CSFP, FDPIR, TEFAP, CI | Storage and Inventory Management of USDA Donated Foods |
| FD-110 Revised | NSLP, CACFP, SFSP | Clarification in Crediting for, and Use of, Donated Foods in Contracts with Food Service Management Companies—First and Final Contract Years |
| FD-119 | NSLP, Processing | Soliciting Bids from Commercial Distributors for End Products |
| FD-122 | NSLP, Processing | Substitution of Donated Foods in Advance of Purchase and Negative Inventories |
| FD-127 | NSLP, Processing | Approval of End Products and Monitoring of End Product Sales |
| FD-130 | NSLP, Processing | Substitution of USDA Beef and Pork |
| FD-134 | NSLP, Processing | Minimum Inventory Protection Requirements for Processors Participating in the National Processing Program |
| FD-137 | NSLP, Processing | Alternative Value Pass-Through System Pilot Project under the Department of Defense Fresh (DoD Fresh) Program |
| SP20-2012 | NSLP | Frozen Fruit Products and Nutrition Standards in the National School Lunch & Breakfast Programs |

Food Distribution Guidance Memos

[Click on the policy number to access the policy]

| | |
|------------------------|--|
| FD-020 | Single Inventory and Related Commodity Issues-Clarification of Regulatory Changes and Other Guidance |
| FD-061 | Inbound Cheese to Further Processors Revised 10/17/11 |
| FD-064 | Managing of Donated Food Inventories at Processors Revised 03/20/2012 |
| FD-103 | Waiver of Requirement to Submit copies of refund request and payments with state MPR (processor) |
| FD-104 | Value of USDA donated USDA Foods for audits |
| FD-105 | Setting aside the Commodity Acceptability Reporting Requirement |
| FD-107 | Storage and Inventory Management of USDA donated Foods |

LIST OF APPENDICES

| | |
|------------------------|--|
| FD-107 | Donated Food Storage, Distribution, and Product Dating (Revised) |
| FD-121 | Donated Foods Possibly Containing Lean Finely Textured (LFT) |
| FD-110 | Clarification of Reporting Requirements and Replacement of Donated Foods in Disasters, Emergencies and Situations of Distress |
| FD-119 | Soliciting Bids from Commercial Distributors for End Products |
| FD-122 | Substitution of Donated Foods in Advance of Purchase and Negative Inventories |
| FD-125 | Offering School Food Authorities the Required Value and Variety of USDA Foods, and Efficient Cost-Effective Distribution |
| FD-127 | Approval of End Products and Monitoring of End Product Sales |
| FD-129 | USDA Foods Bone-in-Chicken Products |
| FD-130 | Substitution of Beef and Pork |
| FD-133 | School Food Authorities (SFAs) Purchasing Produce from U.S. Department of Defense (DoD) Vendors using Section 4 and 11 or Fresh Fruit and Vegetable Program (FFVP) Funds |
| FD-134 | Minimum Inventory Protection Requirements for Processors Participating in the National Processing Program |
| FD-144 | Market Basket Analysis when Procuring Program Goods and Modifying Contracted for Product Lists |

Food and Nutrition Service Policy Memos

<https://www.fns.usda.gov/resources>

| | |
|-----------------------------|---|
| FM-03-2018 | Micro-Purchase and Simplified Acquisitions Threshold |
| SP 18-2011 | Procurement Geographic Preference Q&As 02-01-2011 |
| SP 41-2011 | Indirect Cost Guidance 07-07-2011 |
| SP 10-2012 | Q&As on Final Rule “Nutrition Standards in the National School Lunch and School Breakfast Programs” |
| SP 20-r2012 | Frozen Fruit Products and Nutrition Standards in the National School Lunch and School Breakfast Programs (Revised) |
| SP 35-2012 | Procuring Services of Purchasing Cooperatives, Group Purchasing Organizations, Group Buying Organizations 06-12-2012 |
| SP 41-2012 | Procurement Questions Relevant to the Buy American Provision 02-13-2012 |
| SP 43-2013 | Supplemental State Administrative Expense Reallocation Funds for School/Child Nutrition Food Distribution Training |
| SP 57-2013 | Q&As Regarding the Use of State Administrative Expense Funds and SAE Reallocation Funds in the Food Distribution Program for Child Nutrition Programs |
| SESP02-2013 | Procurement Geographic Preference Q&As – Part II |
| SP16-2013 | Revised Meat/Meat Alternates and Milk Charts in the Food Buying Guide for Child Nutrition Programs |

LIST OF APPENDICES

- [SP31-2012](#) Q&As Related to the Certification of Compliance with Meal Requirements for the National School Lunch Program
- [SP23-2013](#) Guidance Reaffirming the Requirement that State agencies and School Food Authorities Periodically Review Food Service Management Company Cost Reimbursable Contracts and Contracts Associated with USDA Foods
- [SFSP01-2013](#) Federal Small Purchase Threshold Adjustment
- [SP33-2014](#) FFVP: Pilot for Canned, Frozen and Dried Fruits & Vegetables Request for Application Guidance & Procedures for Selection of States and Schools
- [SP34-2014](#) FFVP: Allocation of Funds for School Year 2019
- [SP35-2014](#) Grain Entrees Related to the Smart Snacks in School Standards
- [SP36-2014](#) Smart Snacks Nutrition Standards and Exempt Fundraisers
- [SP39-2014](#) National School Lunch Program's Seamless Summer Option
- [SP41-2014](#) Clarification of the Policy on Food Consumption Outside of Foodservice Area, and the Whole Grain-Rich Requirement
- [SFSP17-2014](#) Sharing Aggregate Data to Expand Program Access and Services in Child Nutrition Programs
- [SFSP18-2014](#) Disaster Response
- [SP47-2014](#) USDA Announces School Meal Flexibility for upcoming School Year
- [SP48-2014](#) Child Nutrition Database Release 18
- [SP52-2014](#) Deadline Extension: State Agency Requests for Participation in the FFVP Pilot for Canned, Frozen and Dried Fruits and Vegetables
- [SP54-2014](#) FY 2019 Administrative Review and Training Grants
- [SP55-2014](#) State Agency 3-Year Administrative Review Cycle Requirement: Waivers for Exceptional Circumstances
- [SP57-2014](#) Updated Offer versus Serve Guidance for the National School Lunch Program and School Breakfast Program Beginning SY2015-16
- [SP60-2014](#) Second Extension of Grant Period for State Administrative Funds to Implement New Meal Pattern Requirements
- [SP63-2014](#) Smart Snacks Standards for Exempt Foods when Paired Together
- [SP65-2014](#) Instructions for Reporting State Administrative Funds for Implementing the New Meal Patterns
- [SP64-2014](#) Team Up for School Nutrition Success Initiative
- [SP66-2014](#) Information and Guidance on the Domestic Beef Market
- [SP34-201](#) SY 2014-15 Certification of Compliance with New Meal Patterns: Certification Tools and Prototype Attestation - Revised
- [SP47-2014](#) Flexibility for Whole Grain-Rich Pasta in SY2014 and SY2015
- [SP07-2015](#) Assessing Proposed Nutrition Education Costs in the NSLP and SBP
- [SFSP02-2015](#) Written Codes of Conduct and Performance of Employees Engaged in Award and Administration of Contracts
- [SP13-2015](#) Summer Meal Programs Meal Service Requirements Q&As - Revised

LIST OF APPENDICES

| | |
|-----------------------------|---|
| SP17-2015 | USDA Farm to School Census |
| SP20-2015 | Requests for Exemption from the School Meals' Whole Grain-Rich Requirement |
| SP21-2015 | National Procurement Training for Child Nutrition Programs |
| SP22-2015 | FY2017 Reallocation of SAE Funds in Child Nutrition Programs |
| SFSP13-2015 | CN Labels Copied with a Watermark Acceptable Documentation |
| SFSP12-2015 | Administrative Review Process Regarding the Child Nutrition (CN) Label, Watermarked CN Label and Manufacturer's Product Formulation Statement |
| SP29-2015 | Reporting Guidance for Results of Administrative Reviews Conducted in SY 2015-16 |
| SP28-2015 | Q&As Regarding the Use of SAE Funds and SA Funds for Farm to School Related Expenses |
| SP23-2014v3 | Q&As Related to the "Smart Snacks" Interim Final Rule |
| SP39-2015 | Professional Standards for State and Local School Nutrition Programs Personnel as Required by the Healthy, Hunger-Free Kids Act of 2010 |
| TA 01-2015 | Child Nutrition Programs and Traditional Foods |
| SFSP10-2014 | Smoothies Offered in Child Nutrition Programs |
| SP41-2015 | Updated Offer vs Serve Guidance for the NSLP and SBP Beginning SY2015-16 |
| SP05-2017 | Q&A: Purchasing Goods and Services Using Cooperative Agreements, Agents, and Third-Party Services |
| SP 04-2018 | Market Basket Analysis when Procuring Program Goods and Modifying Contracted-For Product Lists |
| SP18-2011 | Procurement Geographic Preference Q and A's 2-1-2011 |
| SP 35-2011 | Procuring Services of Purchasing Cooperatives, Group Purchasing Organizations , Group buying Organizations |
| SP 60-2016 | Indirect Cost Guidance September 2016 |