

FOOD DISTRIBUTION 2000

*TRANSFORMING FOOD DISTRIBUTION FOR THE NEXT
MILLENNIUM*



USDA'S Reinvention Plan for *Household Programs*

Final Report

December 20, 2000

Introduction and Background

The household commodity programs have two primary objectives. One is to provide nutritious, high-quality food to needy families in our nation, including those living on Indian reservations. A second is to assist U.S. agricultural producers by buying products under market-support and surplus-removal programs. These two objectives should be met in an effective and efficient manner. Although much of this report focuses on issues in the Food Distribution Program on Indian Reservations (FDPIR), some changes in food ordering and contracting apply to all household programs.

Over the years, the household commodity programs have improved. However, these improvements have not kept up with changes in the food industry, in technology, and in consumer preferences. In September 1998, the Commodity Improvement Council (CIC), made up of four USDA Under Secretaries, called a meeting to learn more about problems and challenges facing the commodity program. The CIC heard presentations by the Presidents of the American School Food Service Association and the American Commodity Distribution Association, and reviewed letters and other material that had been received. In addition, USDA staff had received comments, thoughts, and ideas from other commodity groups including those from FDPIR, the Emergency Food Assistance Program (TEFAP), and the Commodity Supplemental Food Program (CSFP).

As a result of this meeting, the CIC launched the largest reinvention effort ever initiated for commodity programs and perhaps the largest ever done in the Department. The effort was called *Food Distribution 2000* and involved staff from four USDA agencies, schools, State agencies, Indian Tribal Organizations (ITOs), and industry. Reinvention teams made up of representatives from many of these groups met over several months to develop recommendations. The teams reported through a Senior Oversight Committee made up of senior USDA managers. These recommendations were submitted to USDA in Fiscal Year 2000 and made public on USDA's website for comment and review. This report is based on the recommendations from the team as well as other suggestions received by the Department through e-mail, by letter, or in person.

This report has two sections. Section I discusses the problems the project focused on. Section II describes the changes USDA is making to improve the programs. Other improvements and changes will likely occur over the next couple of years.

Section I

Problems Addressed

The project had the following primary objectives: (1) Providing better customer service and (2) Improving the effective use of staff resources. Following are some of the specific problems identified.

- **Inflexible Ordering and Delivery System**

The federal procurement system cannot react quickly enough to unanticipated changes in demand. The system is relatively inflexible. Most of our procurement contracts are for fixed amounts by delivery period; therefore, there is no opportunity to adjust the amount of a food order for a specific delivery period once it has been contracted for. These fixed contracts are especially challenging for CSFP and FDPIR because program participation fluctuates monthly which may result in excessive inventories or shortages. USDA must intervene by finding alternative locations to ship extra food or attempt to cover shortages by providing additional food from somewhere else. The recipients want a system that allows for greater flexibility in ordering and delivery.

- **Late Delivery of Commodities**

Commodity deliveries to States and ITOs are supposed to be made within a two-week window but are sometimes late. Late deliveries persist for a variety of reasons. USDA may not have purchased a commodity in the desired quantity or according to schedule, or a vendor failed to honor his contract. In other situations, food may have been delivered to the warehouse in a timely manner, but could not be shipped to the recipient agency because the inventory was not entered in the computer system or carriers could not be scheduled to make deliveries. All of these factors contribute to late deliveries. If the food is not delivered as anticipated, sites may be forced to delay their distributions. Late deliveries are especially disruptive to household programs because many sites rely on volunteer help for unloading the truck(s). Thus, late deliveries impose a greater scheduling burden.

- **Labor-Intensive and Inefficient System**

The current inventory system for filling multifood orders for FDPIR and CSFP is cumbersome and duplicative. The process of placing and filling orders involves many different offices, some of which duplicate functions or second-guess decisions made earlier in the chain. When inventories are insufficient for filling orders, arranging for product substitutions is labor-intensive. In addition, the system does not lend itself to flexible ordering and delivery options. When a recipient initiates a special request such as delivery within a shorter window than the regular two-week span, manual intervention is necessary to accommodate the request.

- **Product Acceptability Issues**

Periodically, recipients voice concerns about acceptability, pack size, and/or packaging defects of a product. In addition, generic USDA labeling sometimes carries the stigma of charity and/or questionable product quality. Manufacturers can supply the product anonymously, without the risk of harm to reputation that can take place with branded products.

- **Inadequate and Inflexible Computer Systems**

USDA's Processed Commodity Inventory Management System (PCIMS) is the primary computer system supporting commodity ordering and purchasing. It was developed in the 1980s and does not reflect leading edge technology. For example, it is inflexible and inefficient compared with newer systems that provide more effective inventory control.

In addition, a separate system called AIS is used by over 100 ITOs and State agencies for the purpose of documenting commodity issuance to participants, managing inventories and generating monthly distribution reports required for maintaining accountability. The system requires updating and ongoing support.

- **Inconsistencies in Administrative Funding Procedures**

The current system of allocating FDPIR administrative funding to ITOs and State agencies is characterized by inconsistencies, and at time inequities, and can be labor-intensive for USDA. Furthermore, ITO matching requirements are controversial, may be labor-intensive to administer, and may not be applied consistently across regions and tribes.

- **Inadequate Nutrition Education Program in FDPIR**

The Native American community is prone to diet-related health conditions such as diabetes, hypertension, and obesity. Thus, the role of nutrition education in FDPIR is critically important. Although funds have been set aside to support this function, past nutrition education efforts have achieved only mixed success. Approaches used have varied widely in quality due to funding limitations, interruptions in funding from year to year, and a general absence of long-range planning, persistence, and intensity.

- **Resource Constraints at all Levels**

Generally speaking, States and federal agencies are experiencing increasing pressure to do more with fewer resources. Most have fewer staff than they did several years ago. For example, the Food and Nutrition Service (FNS) had almost 2000 staff in 1990 and currently has 1,700 staff. In many cases, technology has not been incorporated to the extent it could be. There is continuous pressure to become more efficient and effective.

Section II

Improvements to Household Commodity Programs

USDA will take the following actions to improve the household commodity programs:

- 1. Improve procurement practices and commodity specifications**
 - A. Expand the use of long-term contracts, IDIQ contracts, and best-value contracting
 - B. Update product specifications
 - C. Allow vendors to use commercial labels

- 2. Streamline ordering, purchasing, and delivery**
 - A. Contract with warehouses for inventory management and ordering services
 - B. Pilot test using a distributor to provide commodity ordering, purchasing, and delivery

- 3. Replace PCIMS with new computer system and provide additional AIS support**

- 4. Continue to work with ITOs to address issues in administrative funding allocation, matching requirements, and nutrition education**

Following is a more detailed discussion of each of the improvements.

1. Improve procurement practices and commodity specifications

- A. Expand the use of long-term contracts, IDIQ contracts, and best-value contracting

Long-term contracts, for our purposes, are defined as those with a duration of a year. IDIQ stands for Indefinite Delivery Indefinite Quantity contracts and means the contract is for a range of quantities and variable delivery dates. One benefit of long-term contracts is that USDA is more likely to be considered a preferred customer versus a “fill-in” customer. This can result in fewer order cancellations and more predictable deliveries. USDA’s long-term contracts for cheese have resulted in fewer unfilled orders and lower prices. A benefit of IDIQ long-term contracts is the shortened time period between order placement and fulfillment. In addition, recipient agencies have increased flexibility in quantities ordered and delivery dates.

Long-term contracts may not be suited for all commodity products. For example, it is difficult to purchase bonus commodities under a long-term contract. Furthermore, particular industries may prefer short-term commitments; or USDA may not be able to develop an acceptable procedure for pricing over a long time period. Also, USDA supports small and minority businesses through set-aside programs. Consideration of these programs needs to continue as part of the contracting process for household programs.

Best-value contracting means that low bid is not the only criterion taken into account when awarding a commodity contract. The following criteria could also be considered: percentage of on-time deliveries, percentage of completed shipments, willingness to replace product and resolve complaints, adherence to specifications, and effectiveness of quality assurance and food safety systems. While current contracting methods incorporate most of these considerations through the federal specification process, a best-value system would include all of these critically important factors in awarding contracts. A best-value system would provide an incentive for companies to go “the extra mile” in providing improved customer service.

Actions

USDA will test the effectiveness of long term, IDIQ, and best-value contract awards in all commodity areas in Fiscal Year 2001-2002 and adopt them where merited.

B. Update product specifications

Over the years, there have been changes in commercial product formulation, pack size, packaging materials, and other items that may not be reflected in current USDA specifications. Bringing USDA products in line with commercial product specifications will make it less likely that production plants will need special production runs and special packaging materials in order to produce USDA commodities. In order to simplify the specification process, USDA will carefully explore using Commercial Item Descriptions rather than unique specifications. This could lower costs and reduce delivery and production delays.

USDA has received numerous inquiries concerning light and heavy syrup in canned fruit. After a careful review, USDA has decided to continue purchasing light syrup, but may purchase fruit of another specification when it determines light syrup is not available or may delay a purchase. This change will reduce many of the delays that have been associated with these products in the past.

Actions

USDA will convene a series of meetings with industry groups to examine each commodity specification and make necessary changes. This process will begin by January 30, 2001.

C. Allow vendors to use commercial labels

USDA has been piloting the use of commercial labels in household programs for the past several years. The pilot indicates that commercial labels resulted in increased competition and in some cases lower costs. In addition, a number of recipients have said that, even though the commodity items are of high quality, the generic labels sometimes imply a lower quality. Commercial labels will help address this issue. Program participants have strongly favored the use of commercial labels.

Actions

USDA will allow companies to use commercial labels for all household programs effective immediately.

2. Streamline ordering, purchasing and delivery

A. Contract with warehouses for inventory management and ordering services

USDA purchases commodities by the truckload. Some of the smaller CSFP and FDPIR sites are not capable of storing full truckloads of single commodities. Therefore, these sites receive a variety of commodities on a single truck (called multifood shipments) from a federally contracted warehouse. Currently these multifood shipments go through several federal offices before actually reaching the warehouse. This process is inefficient and requires extensive lead-time for submitting orders. Also, commodities are sometimes unavailable for outbound shipment for up to a month because they have not been entered into the automated database.

Operations need to be streamlined so that CSFP and FDPIR recipient agencies can place multifood orders directly with the entity that ships the food without third-party intervention. Direct ordering increases efficiency and has great potential for improved customer service because it removes the middleman. It does, however, require new warehouse contracts or amendments to existing contracts.

USDA will assess the costs and benefits of full truckload orders being handled by the warehouse vs. by USDA. In the first case the process is streamlined and made uniform for all commodities. In the latter case, it removes the middleman by placing States and ITOs in contact with FNS Headquarters staff as opposed to being channeled through multiple federal offices prior to reaching FNS Headquarters.

Actions

USDA will implement the new warehousing service contracts described above by September 30, 2001.

B. Pilot test using a distributor to provide commodity ordering, purchasing, and delivery

USDA can establish a pilot project that piggybacks on an existing federal contract with commercial wholesalers/distributors. USDA would establish the ordering/spending caps for the ITOs and pay the bills. Ordering, storage, purchasing, and transportation would all be handled by the contracted distributor. This is similar to the method under which fresh produce is provided via the Defense Department to FDPIR; it has proven very efficient and cost-effective. In this pilot project, multifoed orders could be placed directly with distributors (sometimes called prime vendors) who would deliver commercial products as they do to other commercial customers. The test could cover a specific USDA region or geographical area. The pilot project would compare the costs and benefits of the current system (revised as discussed in this paper) with the distributor-based system.

Actions

USDA will begin the distributor pilot project by June 30, 2001.

3. Replace PCIMS with new computer system and provide additional AIS support

A computer system should allow flexibility and good financial accountability and controls. It should work easily with other partner systems.

The localized AIS system should be well supported and updated as necessary. It should help recipient agencies better manage their programs.

Actions

Development of a new computer system to replace PCIMS will begin by January 30, 2001. Additional staff support for the AIS system has been provided.

4. Continue to work with ITOs to address issues in administrative funding allocation, matching requirements, and nutrition education

Although the majority of the ITOs favor changing the current system of administrative funds allocation, this is a controversial issue, and there is no consensus as to what, if any, changes should be. USDA has generated several models and exhibits, and has made a number of presentations suggesting alternative formulas, but widespread support is lacking for any of these.

USDA has explored eliminating the matching requirement. Under the current system, ITOs must match, in cash or “in-kind” contributions, 25 percent of their total negotiated budget. USDA can reduce the required match based on “compelling justification” provided by the ITO. This is not

always consistently applied and entails a labor-intensive exercise for USDA. The majority of ITOs seem to favor removing the match.

One proposal being considered to address nutrition education issues is to develop a five-year strategic plan for FDPIR nutrition education that includes a long-range funding commitment to support the plan. The plan would be developed in partnership with the National Association of Food Distribution Programs on Indian Reservations (NAFDPIR) and have the endorsement of Indian Tribal Governments. It could include an ongoing reexamination of the food package to achieve a synergy that yields better participant choices from a food package that is healthy and appealing. USDA could coordinate efforts to seek the co-sponsorship of, and a material commitment from, other federal stakeholders, including the Indian Health Service and the Centers for Disease Control. In addition, the plan could encourage coordinated, cooperative nutrition education efforts at the tribal level that bring together appropriate local resources such as schools, FDPIR; the Special Supplemental Nutrition Program for Women, Infants and Children (WIC); alcohol and drug abuse counseling services, tribal media, and athletic and fitness programs. The plan could also include an evaluation component to measure effectiveness.

Actions

USDA will continue to work closely with ITOs and other affected groups to develop mutually agreeable solutions for administrative funding, matching, and nutrition education issues.