



United States
Department of
Agriculture

Food and
Nutrition
Service

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USDA Commodities with Commercial Labels

Qs and A's for Single Inventory Recordkeeping System (October 3, 2001)

The Food and Nutrition Service issued a memo on July 13, 2001 waiving the part of §250.14(e) that requires schools and child care centers to take an annual physical inventory of commodities in storage facilities. The memo also waives the part of §250.16(a)(2) that requires them to maintain commodity inventory records. The waiver permits SDAs to allow schools and childcare centers to adopt a single inventory recordkeeping method that will account for commodities along with purchased food, and current regulatory requirements to maintain USDA commodities separate from purchased inventory will be waived. While general guidance for using this method accompanied the waiver, additional questions have arisen. The following guidance is provided in response to those questions and applies only when a State has adopted the new recordkeeping method.

1. Q. Does the single inventory recordkeeping system apply only to commodities with commercial labels?
 - A. No. When the school or childcare center adopts the single inventory system, it applies to all commodities regardless of whether they have commercial labels or USDA labels.
2. Q. How does the recordkeeping change affect the OMB Circular A-133 Single Audits?
 - A. Guidance for the OMB Circular A-133 is based on the Part 250 regulations. Since the specific regulations for maintaining a separate inventory for commodity are being changed, this will not be part of OMB audit requirements. The compliance supplement will be updated to reflect the changes.

The value of commodity expended during the past year is a required factor to determine whether the school food authority exceed the value threshold and must have a Single Audit. Included in the compliance supplement update will be guidance for deriving the expended commodity value to be used for this purpose.

3. Q. How long is the waiver in effect?
 - A. The waiver is in effect until regulatory changes are made.

4. Q. Does the SDA continue to decide the value of the commodities to be used by the schools and child care centers?
- A. Yes. The SDA must assign the value of the commodity using one of the following three methods described in §250.13(a)(5): the actual cost-per-pound data; the estimated cost-per-pound data provided by USDA; or the USDA commodity file cost as of a specified date. Most SDAs are already using one of these methods and, therefore, will not need to do anything differently.
5. Q. What basis should schools and centers use for establishing their inventory values?
- A. Schools and centers are going to need to value inventory for three different situations.
- **Purchased inventory for which there is no commodity equivalent.** An example might be condiments such as catsup. It is suggested that schools and centers base the value on the net cost for that type of inventory. That value probably would be different for each school system and center in the State.
 - **Commodity product for which there is no equivalent commercial product purchased by the school or center.** Examples may include pouched salmon, frozen diced chicken or prune puree, which are commodity products that schools typically do not purchase. The SDA assigns the value using one of the methods described under Question 4 and that value would be the same for all operations throughout the State.
 - **Inventory of foods that are both purchased and provided as commodities.** Canned fruits and vegetables are examples. Schools and centers could base the value on the net cost assigned to the purchased products. Or they could use the SDA- determined commodity value. Or they could use an average or weighted average of the two values.
6. Q. How will the value of commodities used by food service management companies (FSMC) be determined and passed to the SFA if inventory is not kept separate?
- A. The single inventory method does not change the requirements at §210.16(a)(6). This provision requires that all Federally donated foods received by the SFA and made available to the FSMC accrue only to the benefit of the SFA's nonprofit food service. The SFA should continue to use its existing method for ensuring the value of purchased product inventories and donated food inventories accrue to the benefit of the SFA's nonprofit food service account. FNS is exploring whether additional guidance on commodity value pass through is needed.
7. Q. How does a State that wishes to adopt the new inventory method proceed?
- A. Properly implementing the single inventory recordkeeping system involves several State agencies. The steps leading to successful implementation are:

- The State CND, SDA and State Financial Division should jointly identify all areas of State recordkeeping and procedures that will require change as a result of losing the ending commodity inventory value. And new procedures should be developed.
- The USDA Regional Office should be notified of the implementation date.
- State auditors should be consulted regarding the recordkeeping changes.
- The waiver notice will need to go to school systems and centers for them to use with local auditors.
- School systems and centers will need proper training on the new method as well as any adjustment to the State reporting system.