Food Distribution National Policy Memorandum

United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive

Alexandria, VA 22302-1500

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POLICY NO.: FD-040: State Processing

SUBJECT: Commodity Inventory Reduction at Further Processors

It has been brought to our attention that further processors are unclear about the timing of book inventory reductions for commodities used in the manufacture of finished end products. The Food Distribution regulations at 7 CFR 250 do not specifically address this issue. Therefore, we issue the following policy for commodity book inventory reduction at further processors.

There are four main value pass through systems currently in use nationwide. Each system has unique timing for the processor to reduce book inventory for commodities provided by the Department for use in making finished end products to provide to eligible recipients.

REBATE SYSTEM:

If a processor is using the rebate system, inventory should be drawn down when the processor issues the rebate to the recipient. The rebate should be paid under the EPDS price that is in effect at the time of payment. FNS cannot assume that the finished end product will be sold to an eligible recipient by the commercial distributor. The processor should not reduce inventory at the time of delivery to the commercial distributor.

DIRECT DISCOUNT:

The processor is selling directly to the recipient at a discount from the commercial price based on the value of the donated food contained in the end product. The processor may reduce book inventory when the recipient is billed for the finished end product.

INDIRECT DISCOUNT THROUGH A DISTRIBUTOR (HYBRID/NET OFF INVOICE)

The processor delivers finished end products to a commercial distributor who then sells the product to an eligible recipient at a discounted price based on the value of the donated food that is contained in the end product. FNS cannot assume that the finished product delivered by the processor will be sold to an eligible recipient by the distributor. Therefore, the processor may not reduce book inventory until documentation is provided by the distributor that shows a sale to an eligible recipient has occurred. This documentation may either be a rebate application from the

distributor or a "sales velocity report" that identifies the finished product that was sold and the eligible recipient that bought the product.

FEE FOR SERVICE:

Under a fee for service system, a processor delivers finished product to a location chosen by the recipient. The processor bills the recipient directly. The processor may reduce book inventory when the recipient agency is billed. By billing the recipient, the processor asserts that the agreement has been fulfilled by delivery of the finished product to the location designated by the recipient. Even if the location is a commercial distributor, the processor has fulfilled the obligation and should be compensated at that time.

FDD policy memorandum FD-007 and FD-025 allow variations of the systems described above, but those variations should not affect the timing of commodity book inventory reductions at a processor.

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