



Food Distribution National Policy Memorandum

United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
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POLICY NO.: FD-064

SUBJECT: Inventory Levels at Further Processors

Questions regarding carryover inventory at processors and State responsibilities have emerged because of the availability of bulk commodities for delivery late in the school year. The following explains State responsibilities regarding inventory levels being held at further processors.

7 CFR part 250.30 states that the Distributing agency (DA) shall monitor commodity inventories held at further processors to ensure that the quantity of donated foods is the lowest cost efficient level, but not more than a six-month inventory level based on the processor's average monthly usage, unless a higher level has been specifically approved by the DA.

State inventory levels in excess of the six-month maximum should be justified in writing by the processor to the State DA. If in agreement, the DA should provide the processor with written approval of the increased inventory level.

Inventory levels in excess of six month usage could occur for several reasons.

The most common reasons are:

- 1) Carryover inventory due to product not yet drawn down or deliveries scheduled late in the school year that are held in storage or "on the books" in the States' account. Several processors hold inventory at the end of the school year so that product is available for delivery at the beginning of the new school year and districts do not have to store finished items over the summer.
- 2) States failing to monitor the flow of commodities in and out of the processor and continuing to order commodity to the processor;
- 3) Recipients placing orders into a specific processor and failing to use the inventory; and
- 4) Recipients failing to apply for rebates in a timely manner or not filing at all.

Carryover inventory from one school year to the next, potentially in excess of six months, is acceptable when a valid processing agreement is in place, commodity draw down is steady and consistent and the State has authorized it.

DAs should work with processors to identify the recipients who are not utilizing their commodity inventory or who have more inventory than they can realistically utilize in a reasonable amount of time. This information should be compared against new orders by those same recipients. If necessary, any additional orders to the same processor should be rejected. DAs should communicate to recipients that if they do not to use their allocated inventory, the State will transfer the inventory to another recipient who will use

it. The recipient losing inventory should not expect compensation for the value of commodity that is transferred.

Should excessive inventory remain after reallocation within the State, DAs should pursue following options:

- 1) Transfer the excess to another processor;
- 2) Transfer the excess to a DA that can use inventory;
- 3) With adequate justification, give the processor written permission to maintain excess inventory.

Finally, if the options listed above are not successful, please contact David Brothers at 703-305-2644 or email david.brothers@fns.usda.gov to coordinate a resolution.



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