

Managing Processing Inventory

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Federal Regulations

- 7 CFR 250.30(n) *Inventory Controls*
- Lowest cost-efficient level, BUT...
- No more than 6 month supply based on average monthly usage
- Higher levels require written justification

Federal Regulations cont...

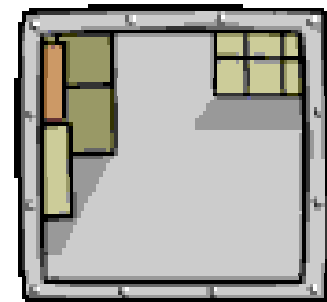
- Under no circumstances should diversions be in excess of:
 1. Anticipated usage
 2. Processor's ability to accept & store
- No further distribution shall be made to processors with excess inventory
- No further distribution to processors reporting no sales activity during the year

Federal Regulations cont...

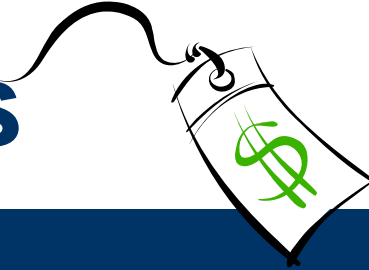
- 250.30(s) *Processing Activity Guidance*
- States shall develop & provide a manual or procedural material for policy and procedure on:
 1. Contract approval
 2. Monitoring & Review
 3. Recordkeeping & Reporting
 4. Inventory Controls
 5. Refund Applications

Inventory Controls

- State monitors processor inventory
- Processors should only be drawing down what they can prove was produced & delivered
- Draw down timing depends on VPT



Refund Sales



Direct Refund

- Processor invoices RA at gross commercial price
- RA applies for a refund

Indirect Refund Sale

- Processor sells commercial to distributor
- Distributor sells commercial to RA
- RA applies for refund

Inventory is reduced when processor pays the refund

Discount Sales



Direct Discount

- Processor bills RA net price
- Inventory reduced when RA billed

Indirect Discount (Hybrid)

- Processor sells commercial to distributor, who sells net to RA
- Distributor applies for refund from processor
- Inventory reduced when refund is paid



“Net Off Invoice”

Indirect Discount Through a Distributor

- Variation on the hybrid allows distributor’s velocity report to serve as refund application
- Requires identical commodity & commercial end products
- Inventory reduced when processor receives velocity report



Fee For Service

- This is the price per case a processor charges to convert raw commodities into a finished product.
- The fee could be:
 - FOB Plant
 - FOB Destination
 - Delivered
- Inventory reduction occurs upon billing school

Negative Inventory



- Should be avoided
 - Processor stop selling at discounted \$
 - Processors own risk, no guarantee of replacement
- Processors not required to “front load”
- Often due to food order delays
- Can offset negative inventory upon receipt of donated food

Excess Inventory



Common Causes

- Carryover inventory
- Deliveries late in the school year
- States failing to monitor flow
- Schools diverting commodity to a processor then failing to use inventory
- Schools failing to apply for rebates in a timely manner or not at all

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Commodity Sessions

Wednesday, July 23, 2008

1:15 – 2:15 pm

The 12 Steps of Commodity Ordering

www.commodities.usda.gov



Excess Inventory



State Options

1. Give processor written permission to maintain excess inventory
2. Transfer to another school
3. Transfer to another processor
4. Transfer to State that can use inventory
5. Rare instances: processor can “buy down” excess inventory

Excess Inventory



State Options

1. Give processor written permission to maintain excess inventory
 - o Processor must provide justification

Excess Inventory



State Options

1. Give processor written permission to maintain excess inventory
2. Transfer to another school
 - Temporary or permanent
 - School may lose entitlement (PAL)
 - State NOT required to replace pounds

Excess Inventory



State Options

1. Give processor written permission to maintain excess inventory
2. Transfer to another school
3. Transfer to another processor
 - “Paper” transfer
 - Physical inventory transfer

Excess Inventory



State Options

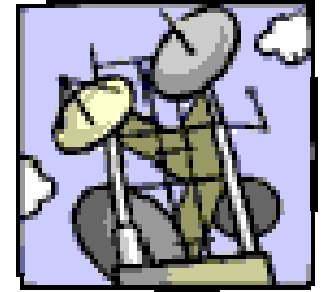
1. Give processor written permission to maintain excess inventory
2. Transfer to another school
3. Transfer to another processor
4. Transfer to State that can use inventory
 - State can request entitlement credit
 - Give entitlement away

Excess Inventory



State Options

1. Give processor written permission to maintain excess inventory
2. Transfer to another school
3. Transfer to another processor
4. Transfer to State that can use inventory
5. **Rare instances: processor can “buy down” excess inventory**
 - Cash-out small quantities
 - Contract termination



**How do you track
inventory
at the Processor?**

Processor Inventory Guidance

- Monitor & communicate RA inventory level on a regular basis to ensure utilization
- Identify RAs with little or no usage early year
- Communicate RA usage to State
 - Move pounds to RAs who need more
 - “State” re-allocation account
 - Reduce or eliminate future diversions
- Communicate continuing problems to FNS

State Inventory Guidance

- Review, update, and enforce your inventory policy & procedures
- Monitor as an aggregate
- Encourage RAs to use in year diverted
- Work with processor to reduce balances of RAs not using inventory
- Review historical usage rates
- Eliminate or push back diversions

School Inventory Guidance

- Know your State inventory policy & procedures
- Develop a strategy
- Menu driven demand for commodity diversions
- Track processors and balances
- “Best guess” for initial diversion
- Calculate pounds needed
- Request destination changes
- “Paper transfer” between processors



School Inventory Guidance

- Don't warehouse commodity at processor
- Use in the year diverted
- Maintain a file of current items available for processing
- Reach out to State & processor (broker) if you need assistance
 - Utilizing existing pounds
 - In need of additional pounds

School Inventory Guidance

- Clearly indicate your distribution system
- Ensure you have a commercial products in case of commodity delays
- Use online tracking systems
- Double check invoices to ensure charged correct case price & receiving full VPT