



Food Distribution National Policy Memorandum

United States
Department of
Agriculture

DATE: February 5, 2003

Food and
Nutrition
Service

POLICY NO. FD-004: State Processing

3101 Park
Center Drive

SUBJECT: Procedures for Accounting for Rework

Alexandria, VA
22302-1500

This memorandum establishes the procedure for accounting for rework in the further processing of donated foods. Rework is defined as wholesome, salvageable product generated during a production run that is not acceptable as the approved finished end product on the end product schedule. Any raw product that does not go through the entire production process should not be considered rework. Processors should continue to report rework inventory on Part B of the monthly performance report.

Rework can be reincorporated in subsequent production runs of the same product in any proportion as long as product quality remains consistent with the original formulation and the order of predominance of the ingredients does not change. If rework comprises more than 20% of a new product formulation, then it should be described as an ingredient on the End Product Data Schedule for the new product.

When rework is incorporated into a subsequent run, guaranteed minimum yield is calculated on raw donated food. **Rework may not be counted in determining whether a processor has met the guaranteed minimum yield established on the end product data schedule.** Raw inventory may only be drawn down based on the pounds of raw donated product included in the production run. Rework inventory is drawn down based on the amount of rework contained in the production run. Should a processor fail to meet guaranteed minimum yield and have to pay for the missed yield, the processor may not use any of the rework generated in the production run with the missed yield in the processor's commercial production.

Rework that cannot be reincorporated into subsequent production runs must be returned to the contracting agency. However, if the State Distributing Agent (DA) determines that the rework cannot be used, the processor may, without consequence, dispose of the rework under the following conditions:

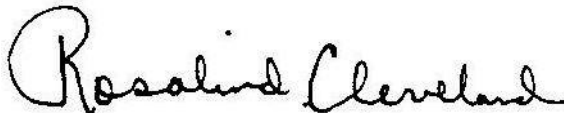
1. Cooked product – A processor may dispose of rework that is not more than 2% of the raw commodity weight. The raw commodity weight for poultry products is the deboned weight.

2. Raw product - The processor may dispose of rework that is not more than 1% of the raw commodity weight. The raw commodity weight for poultry products is the deboned weight.

Disposal of the rework could include donation to the needy, etc. However, the rework may not be used in the processor's commercial production or be sold by the processor for monetary gain. Any rework disposed of by the processor must be weighed and recorded on the grading certificate by a USDA grader. A copy of the grading certificate shall be returned to the State agency with the monthly performance report. All rework must be reconciled annually by the State. Rework may be reconciled using the following formula:

Rework generated - (rework reincorporated + rework certified as disposed) = rework physical inventory.

Rework in inventory may be carried forward into the next contracting year with mutual consent between the DA and the processor. However, if the contract is terminated, the processor must pay the State agency for the value of the donated food contained in the rework, or have the rework transferred to another DA that will utilize it. If payment is preferred, the value will be determined by using the November 15th commodity file price of the donated food item.



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Food Distribution Division

Date Originally Issued: 12/11/1996 (State Processing Policy Memo. No. 26)