



# Recipient Agency

# Commodity Processing Handbook

December 2006

Produced by  
ACDA Processing Committee  
Procurement Subcommittee

# Recipient Agency Processing Handbook

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## **A. INTRODUCTION**

This handbook is designed and intended to assist recipient agencies (RAs) by providing guidance for commodity processing. The Food Distribution Program has gone through several changes in recent years to allow more cost savings and efficiencies to school districts and to other entities receiving USDA donated foods. Now customers can enjoy and expect to be served high quality, nutritious foods on a consistent basis. As a result, participation increases. Menus now are the driver behind commodity purchases instead of surplus commodities driving menus. This is very important.

## **B. THE PROCESS**

In order to utilize and maximize commodity entitlement dollars, (also known as PAL – Planned Assistance Level), in the most efficient, economical way, extensive planning and commitment is required. It simply begins with the main marketing focus of the program: the menu. More information about program history is located in section F of this handbook. For further understanding of some terms used in this document, a Glossary of Terms is located in section G of this handbook.

1. Menus - Most school districts have established menu patterns based on the demands from the students. The menu history, in relation to the types of foods offered, menu comments from staff and customers, and food trends, are taken into consideration when planning for the future. Attention should be given to continuity of popular center-of-the-plate items (entrees/proteins) and high volume items (potatoes, tomatoes, etc.) when considering commodity processing. Plan the menu as directed by the customer's tastes, preferences, and meal requirements.
2. Product Selection - Meet with manufacturers and/or manufacturer's representatives and attend food shows and/or conference events on a regular basis to learn about new products and food trends. Network with peers to share ideas and successes.
3. Cutting/Testing – Perform product tests for acceptability and blind product cuttings for comparison of "like" items (to determine preferences) with students on a continual basis. Keep records of the brands/code numbers sampled and the results of the tests.
4. Usage – Determine the anticipated, estimated number of servings needed to fulfill the menu requirements for a fiscal school year.
5. Surveys – The state agency (DA) overseeing the Food Distribution Program normally issues surveys or requisitions to RAs in the winter/early spring for utilization of commodities for the following fiscal school year. There could be as many as three (3) separate surveys due at different times: the Planned Usage for "brown box" commodities, the Request for the diversion of cheese and related "B" commodities to processors, and the Request for the diversion of all other commodities to processors. Simply calculate the number of raw pounds needed for diversion with the anticipated number of servings needed to fulfill the menu requirements. *The Summary End Product Data Schedule (SEPDS) provides the correct draw down for each product. It shows the pounds of donated food per case, which is multiplied by the quantity of cases purchased to determine the draw down the processor needs to file with DA.*
6. Information regarding the number of raw pounds per finished case can be obtained by contacting the DA.
7. Procurement – in a perfect world, procurement of commodity processed foods is accomplished prior to submitting surveys to the DA so that processor selection is appropriate. It has been noted that one of the difficulties is making firm menu decisions and obtaining fair prices for deliveries beginning as much as nine (9) months after the award of the bid. In this scenario, procurement would need to take place in the fall time of the year for contracts beginning the following July/August. Regardless of the order of events, a form of competitive procurement is required.
8. Orders and Delivery – Schools can place orders for delivery directly from processors or handled and delivered by a food service distributor.

9. Management of Commodity Balances

- a. Ensure processor has provided a list of the case allocations to distributors, DA, and USDA upon request.
- b. Use the beginning commodity balance (allocation at the beginning of each school year + roll over balance, if any, from previous year) to monitor commodity balances as the year progresses and deliveries are received.
- c. Ensure that the distributor contracted to handle your commodities has a tracking system for the purpose of an audit trail to report sales to processors in a timely basis. (Through procurement specifications)
- d. Participate in the manufacturer's sales verification program to ensure that you are getting the full value of donated foods

### **C. PROCUREMENT**

This portion of the handbook is intended to provide information for consideration when soliciting responses to procurement of services and/or goods. When purchases exceed your districts purchasing threshold, for either commercial or commodity processed food items, formal competition is required under Federal Regulation 7CFR3016. Each district's needs and bidding requirements and purchasing thresholds may be, and often are, specific to that district. State and local regulations may be more stringent than the Federal Regulations and these must be incorporated into the procurement plan. Rule of thumb: The most restrictive regulation(s) prevails.

While multiple value pass through systems (which are described in detail later in this document) are approved by USDA-FNS, not all states (DA's) approve all pass through value methods. RAs should contact the DA to first determine which value pass through methods are available in their state prior to issuing any formal solicitation such as a request for proposal (RFP) or invitation for bid (IFB) and before committing to ordering processed end products as result from diversion of raw commodities to a Processor.

The RA should contact the state distributing agency overseeing the Food Distribution Program, the USDA Regional Office, or the state agency that provides procurement assistance with any questions. Formal and informal procurement methods are established practices, appropriate for the acquisition, that are followed consistently. Informal or small purchase procurement methods use relatively simple and informal practices to acquire goods and services that cost less than the small purchase threshold. Small purchases are conducted using specific procedures that are not as rigorous as formal procedures, but still provide competition.

1. Formal procurement methods are established procedures that must be followed when the proposed purchase is expected to equal or exceed the small purchase threshold. The two formal procurement methods available are:
  - a. Competitive Sealed Bidding commonly referred to as sealed bidding. The sealed bidding method uses an Invitation for Bid (IFB), through which a firm fixed price contract, fixed price contract with economic price adjustment or fixed price contract with prospective price redetermination is awarded to the lowest priced responsible, responsive bidder. Under an IFB, bids are publicly solicited. The nature of a product being purchased using a sealed bid is such that if all bids are responsive to the published specifications they will differ along no dimension other than price.
  - b. Competitive Proposals, formerly called competitive negotiation. The competitive proposal method, formerly called competitive negotiation, uses a Request for Proposal (RFP) through which a firm fixed price or cost reimbursable contract is awarded to the responsible offeror, price and other terms. This procurement method is effective when expectations or accomplishments can be identified, but how the expectations or accomplishments will be

met has not been identified. This method is useful for developmental projects or when either the soliciting party or the offeror can perform required functions.

1. The response to a competitive proposal solicitation consists of two distinct elements:
  - A. Technical proposal, in which the offeror explains how the task will be accomplished
  - B. Cost proposal, which provides the costs for accomplishing the technical proposal.

Offerors to a competitive proposal must be ranked using the criteria identified in the solicitation. Negotiations are conducted with top ranked offerors. In contrast to an IFB, when using an RFP, the award may need to be based on a comparative evaluation of price, quality, and contractual factors in order to determine the most advantageous offering with qualifying factors including technical and performance factors.

It is important to recognize, however, that obtaining the best product at the lowest price is the goal in both the sealed bid method and the competitive proposal method.

#### **D. PROCUREMENT TOPICS OF CONSIDERATION**

The following topics are recommended to be addressed in bid documents so that the bidding process is easier and is a more cost efficient process for both the RA and the manufacturer/distributor.

1. Manufacturers and/or distributors should be notified of upcoming RFPs or IFBs via email or facsimile, and solicitations should be posted on a designated website for retrieval.
2. The first page of the solicitation should contain:
  - RFP or IFB number
  - Bid opening day, date, and time
  - Complete address to return the bid
  - Contact person and phone number/email address should the offeror have questions.

It is best to hold bid openings on any day *except Mondays* and any time *after 1:00 p.m.* Consult your school calendar to ensure that the planned date for the bid opening is indeed a day the office is open for business.

3. TIME: Allow the manufacturer/distributor adequate time for the completion of the bid. (3 weeks minimum) Also, it is recommended that requests for bids/requests for proposals for commodity processed foods should be planned to be due *after December 1<sup>st</sup>*. There must be consideration of the timeliness of the November 15<sup>th</sup> price file, issued by USDA FNS.
4. SCOPE: Provide the scope and intent of RFP/IFB. Clearly give a brief explanation of what the goal of the bid is. This message gives the prospective respondent the first impression of the business and what the needs might be.
5. FACTORS USED FOR EVALUATION: Clearly list the factors that will be used to evaluate and determine the winner of the bid.

6. **BID COVENANTS:** Consider bid covenants stating the minimum requirements/conditions to do business with a recipient agency or coop. Work with recipient agency purchasing personnel/department to insure minimum covenants are covered.
7. **BID PERIOD:** Indicates the time frame for which the bid is intended.
8. **RENEWAL CLAUSE:** Indicates the time frame for which the bid may be mutually renewed.
9. **ESCALATION CLAUSE:** Indicates a provision for price increase, which should be tied to a third party publicly published index, such as the CPI.
10. **PERFORMANCE:** Recommended that the performance expectations are qualified. Minimum and maximum delivery variants, protocol for product substitution, documentation requirements (receipts in multiple copies if necessary), any consequences for contract variances not stated. Are references available for both current and recently lost customers of comparable sized districts?
11. **PRODUCT SPECIFICATIONS:** Describe specifically what product is requested for purchase. Include in the description desired portion size or range in size, breeding content, ability to bake and or fry the product, fully cooked or raw, bulk packed or individually wrapped, etc.
  - a. **CN Labeling and Nutritional Information:** State whether the product needs to have CN labeling. State whether a nutritional analysis is required for each product offered. Clearly identify any additional nutritional requirements such as maximum grams of fat, sodium levels etc.
  - b. **Commodity Ingredients:** Indicate USDA donated ingredient(s) that will be processed. Indicate direct diversion or a backhaul arrangement. (Try to avoid backhauling if at all possible. It's not a good value for your district unless you are paying storage fees on excess inventory that is hard to move)
  - c. **Yield:** Request product yield information and indicate how/if yield will be used to evaluate the bid. Yield information helps estimate projected costs and to determine your total needs for a year. RA's should request a processors' approved Summary End Product Data Schedule (SEPDS) to determine product yield
    1. **Standard Yield or Guaranteed Yield:** If these are not required, how are shortages and overages to be handled by the processor? (This pertains to Guaranteed Minimum Return (GMR) items)
  - d. **Brands:** Product testing is an effective way to determine customer preferences. What brands and quality levels has the district used or tested and found to be acceptable? Communicate expectations clearly that the goal is to obtain a product equal or greater in quality and value. Does the district require commodity/commercial matched products in terms of fat, nutritional, portion size, pack, case weight to insure smooth transition when donated food is not available to meet menu obligations?
  - e. **Quantity Desired:** The realistic quantity the supplier can count on the district purchasing. The more accurate the figures, the more aggressive it will allow both manufacturer and distributor to be on cost. It may be expressed in raw poundage expected to process servings per item, or finished cases needed. The accuracy in estimating the quantities identified in the solicitation are critical in the vendor's ability to establish a fair price and will have a direct impact on the potential of contract renewals and fair and equitable terms in subsequent contracts.

12. VALUE PASS THROUGH METHOD: There are several methods to consider when obtaining the value of the commodities in processed foods. The practices are fee-for-service, modified fee-for-service, and indirect discount (aka NOI). What is permissible in the State? What method is best for the district? Does the supplier work in more than one method? Is the supplier approved for more than one method? A detailed understanding and analysis must be completed when assessing the benefits of each of the Value Pass Through Methods.

- a. Fee-For-Service (FFS) – RA invoiced directly from processor a per pound/case price *excluding* the value of the commodity. Under Fee For Service (FFS), based on the size of the district's order, processors may be limited in the number of deliveries that they can make throughout the school year. The timing of these deliveries has many factors but the net result is that once delivered to the distributing agent, the invoice is payable to the processor. If the RA is unable to accept some or the entire product from the distributor for whatever reason, the RA ends up paying for product that they cannot access for sometime. This may or may not fit into the cash management goals of the district.
- b. Rebates: Using Rebates as the value pass through can make your procurement method simpler, but you must do the capital layout for the commodity value up front and wait to get your refund from each processor after the fact.
- c. FFS through Distributor – Distributor acts as Processor's billing agent and invoices RA a per pound/case price *excluding* the value of the commodity + distribution fees. (Also known as Modified Fee for Service)

1. Title of Product

- A. The DA holds title to the donated food after receipt from processor until the RA receives it under single state processing agreements. USDA holds the title for nationally approved processing agreements.
- B. It is strongly recommended that the RA request that the distributor have an endorsement on the distributor's property insurance to cover product in their care and control.

2. Invoicing Methods

- A. RA is invoiced the fee for service directly by the processor with handling and delivery billed by the distributor.
- B. RA is invoiced the fee for service and the delivery charges by the processor with each item listed individually.
- C. Distributor bills RA at the total case cost under provision of FD-025 (March 29, 2004) (included).

3. Payment Methods

- A. Invoices for nonsubstitutable commodities are paid by the RA when the product is received at the designated delivery location (warehouse, commodity distribution warehouse, or commercial distributor).
- B. Invoices for substitutable commodities are to be paid by the RA upon receipt of product.
- C. If the distributor is charging the RA a total case price rather than detailing the charges on two lines, fee for service and handling/delivery charge, per USDA FD-025 (March 29, 2004), the RA needs to insure that the processor is providing additional information to the DA.
- D. Show written assignment of billing responsibility to the distributor breaking out fee for service plus delivery/handling charge to equal the total case price. Product pricing and delivery/handling fees should be determined through a procurement process.

4. Record Keeping

- A. RA and distributor are required to retain proof of delivery.
- B. The proof of receipt of commodity value lies with the RA. Invoices should be kept as proof of receipt and payment following applicable federal, state, or local regulation for record retention.
- C. RA is responsible for verifying the accuracy of fee for service and delivery/handling charges.

d. Indirect Discount (Net Off Invoice or NOI) – RA invoiced directly from distributor at net price + distribution fees. The use of Hybrid Value Pass Through Methods, such as Net Off Invoice (NOI), may eliminate the need for storage costs. However, the RA will need to assess any increase in service and delivery fee a Distributor may require for this type of transaction to cover possible associated administrative costs. Additionally, note that the delivery fee is already included in the commercial price from which the value of DF is deducted.

1. NOI Requirements:

- Sale to eligible RA
- Processor has approved SEPDS with State Agency
- RA has a positive inventory “on the books” or “in the bank”
- Distributor must sell at net price + distribution fees
- Poultry Processors with Substitution Approval
- Fully Substitutable Commodities
- Identical Commodity/Commercial Products
- Processor sells to distributor at gross price
- Distributor sells product to *any* customer
- Sales Verification
  - Processor responsible to conduct RA sales verification
  - Several methods to verify RA sales:
    - Email and/or web-based notification
    - Written correspondence
    - Verbal communication
  - RA responsible to confirm receipt of NOI product AND commodity value
  - RA may also be contacted by State Agency to confirm same sale

2. Title of Product

- A. RA takes title of product once the distributor delivers product.

3. Invoicing and Payment

- A. Distributor invoices the RA the net price. The invoice must identify the gross case price and the value of donated food(s) per case.
- B. The gross price must be negotiated or bid.

- C. The RA ends up being billed at a price after the commodity discount is given.
- D. Record Keeping
  - 1. RA should have a tracking system in place to compare and validate distributor and processor verification requests to verify sales. (DA is required to *randomly* sample RAs for verification.)
- E. RA can expect the State Agency to...
  - 1. Provide a list of eligible processors to process in their state.
  - 2. Provide diversion information (number of pounds/cases) to RA and processor.
  - 3. Upon request, provide SEPDS showing all products available, the types of commodities that can be processed, the commodity value per pound, the amount of donated food per finished case, and the value of the donated food per finished case.
- F. RA can expect the Processor to...
  - 1. Upon request, provide the SEPDS.
  - 2. Pass through value of commodity(s) contained in the finished product.
  - 3. Provide competitive prices to distributor(s) offering bids to the RA. (through procurement process, if applicable). RAs are encouraged to bid distribution separate from processing as they are two separate business decisions.
  - 4. Inform the distributor of the number of pounds/cases that will be put into the distributor's commodity tracking system on behalf of the RA.
- G. RA can expect the Distributor to...
  - 1. Prepare invoices with the bid price for the food product listed on the first line and the value of the product, (provided by the processor), deducted on the second line thus giving the net case price.
  - 2. Clarify how distributor will communicate sales/velocity reports to processor.
  - 3. Maintain a program that meets audit requirements that tracks and deducts the commodity value of the product delivered to the RA and tracks the remaining allocation (entitlement).
  - 4. Agree that no brand or item code substitution is allowed.
  - 5. Agree that the distributor will slot all items the RA has requested for processing that meet distributor's volume requirements, keeping in mind that special order items must meet volume requirements and business practice guidelines. Distributors reserve the right to deny stocking commodity items for RAs that do not meet the volume requirements.
- H. Participation
  - 1. Processor must inform RA of authorized distributors to conduct NOI on their behalf.
  - 2. RA should confirm with the DA that processor is approved for NOI.
  - 3. RA should verify with the DA and the processor which end products are included in the processor's NOI program.
  - 4. RA should consider the need for CN labeled products, product variety, and distributor's ability to stock requested items.

13. PRICING: Design your bid document to accommodate desired units of delivered product: by serving, pound, case, etc., with space available to list commercial and commodity equivalent if available, allowing bidders to list value pass through and/or fee for service.

14. **COST ANALYSIS:** RA needs to fully understand what the service and distribution fee will be for the product chosen. When bidding with NOI, RA's should request the gross case bid price, the commodity value per case and the net price each be identified on the bid response. If RA receives only the net case price, an RA cannot be certain that it is receiving the correct/full value of the donated food per case. Any non-profit discount, volume discount should be reflected separate from the commodity discount or reflected in the gross price listed. This type of analysis of costs will allow the district to determine the cost competitiveness of the delivery and service fee as compared to all other delivery and service fees for commercial products.
15. **RECORD KEEPING:** Some processors offer Internet based systems designed at maintaining customer's accounts. District needs to reference commodity agreement it has with State DA to ensure program recordkeeping requirements are addressed. If your state doesn't require a two line invoicing for NOI, you may want to specify it in your bid document(s)  
  
RA should ask the Processor if they offer some type of on-line system to help manage the account. Some more advanced sites offer a commodity "calculator". This feature allows the RA to enter a total amount of finished product needed by manufacturer product number to meet menu needs and the system will calculate how many pounds of USDA donation are needed to produce the finished cases needed.
16. **INVENTORY RECONCILIATION:** It is recommended that the Distributor's ability to provide a system to reconcile inventory at predetermined intervals be included in the bid document. It is important that it is clarified if you are requesting that a physical or book inventory is required.
17. **STORAGE FEES:** Storage costs should be a part of the distribution bidding process. Most third party warehouse and distribution arrangements include some period of time where storage is included in the delivery fee. Once that time period has passed, typically the warehouse or distributor charges a monthly storage fee based upon a case rate. These fees may or may not include summer months and are usually charged on a calendar month.  
  
The RA must also know the warehouse or Distributor delivery frequency and storage charges prior to making any diversion decisions. Storage costs can be significant if not managed and they can greatly decrease the advantage of further processing over purchasing commercial product.
18. **AVAILABILITY:** There are many factors that affect when a processor will be able to make deliveries of product. These include but are not limited to timing of raw material purchases by USDA; market conditions that might prevent raw material purchases; lack of volume to gain delivery efficiency back to the designated warehouse or distributor; whether or not a processor is vertically integrated or is awaiting a USDA award for raw material from another supplier; etc. These factors contribute to a variable delivery system, which may impact delivery of all processed commodity end products.
19. **INSURANCE:** If a third party distribution agent other than that offered through contract to the State is chosen by the RA, it is strongly recommended that the RA request that the distributor extend proper insurance over the recipient's product to protect against loss or damage. The insurance coverage shall include loss of products at the full market value should a disaster occur.
20. **DELIVERY REQUIREMENTS:** Describe when, where, frequency, how many locations, when deliveries will and will not be accepted and whom to call to schedule delivery. In many cases, the State Office of Food Distribution has already made arrangements for the warehousing and distribution of processed commodity items. If they have not or if the RA has chosen with State approval (???) to secure their own distribution channel, the RA needs to make delivery expectations very clear. It is recommended that the RA require a demonstration of ability to provide product for predictable deliveries throughout school year.

21. **TRANSPORTATION AND TITLE:** Describes which entity is liable for the product based on possession. This also can include prohibition of collect freight charges and that all pricing will be quoted on a delivered cost basis.
22. **DELIVERY/FREIGHT CHARGES:** Be specific in regards to how freight is to be billed, especially fuel surcharges.
23. **PENALTIES AND/OR CONTRACT TERMINATION:** Consider stating penalties for missing delivery delays, failure to submit needed information to appropriate parties, etc. This can be monetary or removal from bid, but should only be used on major incidences that prevent having the products available in a timely manner or having the delivered product differ from the sample product approved and affect operation of service to student customers. Make sure the district interests are covered, but at the same time work to develop good lines of communication and fair business practices with your vendors. If fines and penalties are frequent for minor offenses, you may have difficulty down the road attracting desirable vendors to do business with.
24. **REGULATORY:** Include Certificates of Debarment; Certification on Lobbying; Certification of adherence to Clean Water/Clean Air Act; Any other state or local required certifications or licenses. The DA can assist with these requirements.
25. **RISK AND SAFETY:** Are any Indemnification Agreements required? Are any third party sanitation inspections required? Insurance Certificates? Do they list the school district as an additional insured? What level of coverage does the school district require? Are copies of the suppliers recall program required? HACCP program? You can reserve the right to inspect their facility and safety reports, inventory practices. A district can also require a distributor to perform lab testing to evaluate of products that integrity may have been jeopardized. You can require distributor to absorb lab costs and reimbursement of product which has tested positive for harmful bacteria.
26. **PAYMENT TERMS:** What is the school district's payment policy? Does the district pay from delivery tickets, bills of lading or is a formal invoice required? Are monthly statements required? Can the school district offer the supplier electronic payment? Does the district take advantage of early payment discounts if available? Does the supplier offer a drop size incentive? Payment is due by the RA when the end products are delivered to the point of destination. In other words, if the RA arranges to have processed end products delivered to the state commodity warehouse or another facility/distributor of choice, the RA is expected to pay the processor upon delivery to the warehouse/distributor, and should not wait to pay bills upon receipt at the school district.
27. **SAMPLES:** Will samples be provided upon request? It is imperative when requesting samples for testing that the samples be required to be equivalent to the commodity product.

## **E. Web Resources:**

Commodity Foods Network:

- [www.commodityfoods.usda.gov](http://www.commodityfoods.usda.gov)

American Commodity Distribution Association:

- [www.commodityfoods.org](http://www.commodityfoods.org)

Food Distribution Home Page:

- [www.fns.usda.gov/fdd](http://www.fns.usda.gov/fdd)

Commodity Files:

- <http://www.fns.usda.gov/fdd/pcims/Nov15CommodityFiles.htm>

Food Distribution Training Power Point Presentations:

- <http://www.fns.usda.gov/fdd/ppt-slides/default.htm>

School Nutrition Association

- [www.schoolnutrition.org](http://www.schoolnutrition.org)

USDA Food Buying Guide: (this is a great resource for specifications)

- <http://teamnutrition.usda.gov/Resources/foodbuyingguide.html>

Approved National Processing Agreement Manufacturers

- <http://www.fns.usda.gov/fdd/programs/national/NPA-ApprovedProcessors.htm>

## **F. Program History: Processing: Past, Present, Future**

### **WHAT IS PROCESSING?**

Each year, schools, institutions, and day care centers throughout the nation receive millions of dollars' worth of donated food for their meal service operations from the U.S. Department of Agriculture (USDA). USDA buys the food under price-support and surplus-removal legislation and offers it to these recipient agencies through the Food Distribution Program of the Food and Nutrition Service. While some food items provided by USDA are purchased in ready-to-use forms, such as canned fruits or vegetables, other foods are provided in forms or quantities that may not be easily used, such as frozen whole turkeys. In order to make efficient use of these foods, many recipient agencies have turned to the food processing industry to convert the USDA donated foods into more convenient and usable forms.

Through processing, recipient agencies can economize on food costs, benefit from reductions in food preparation time and outlays for equipment, and make the most efficient use of donated food. Processing helps recipient agencies provide more varied and higher quality meals, reduces waste in the food preparation process, and stabilizes costs through portion control. Processing enables recipient agencies to realize significant cost savings. These cost savings can be in the form of a discount in the normal commercial price or by way of a refund from the processor.

Processing has become an integral part of day-to-day food service operations and its use will continue to increase as new menu items are developed by industry and introduced to the American palate. The processing of donated food must be conducted in accordance with the State Processing Program regulations (7 CFR Part 250).

### **WHAT GOVERNS THE PROCESSING PROGRAM?**

The processing program is governed by law, regulations, and policy memoranda. The following laws affect the processing program:

The Agriculture Act of 1935

The National School Lunch Act of 1946

The Agriculture Act of 1949

The Child Nutrition Act of 1966

The Commodity Distribution Reform Act of 1987

These laws are amended from time to time and current law can be found on the Food Distribution website. The regulations that govern processing are found in Chapter 7 of the Code of Federal Regulations Part 250. They are also available on the Food Distribution website.

**Policy memoranda are FNS' interpretation of the regulations or a ruling on a particular practice not specifically addressed by regulation. They are available on the Food Distribution website.**

## **HISTORY OF THE STATE PROCESSING PROGRAM**

USDA's domestic food assistance programs administered by the Food and Nutrition Service (FNS) are this nation's primary defense against hunger and malnutrition. Through the Food Distribution Programs, millions of Americans receive donated food assistance on a daily basis to help meet some of the nutritional needs of children and needy adults. The programs also help support markets for food that American farmers produce.

To aid American farmers, USDA buys food under price-support and surplus-removal legislation and makes this food available to State distributing agencies. In addition, for some programs, funds are appropriated to purchase foods, the type and variety of which are controlled by market conditions. USDA pays for the initial processing and packaging of the food and for transporting it to designated points within each State. Distributing agencies are then responsible for storing the food, transporting it throughout the State, and distributing it at the local level to eligible recipient organizations participating in the various food programs.

In August of 1935, Section 32 of Public Law 74-320 provided the first significant authority for Federal food donations. This legislation made funds available to USDA to encourage the domestic consumption of certain agricultural commodities by diverting them from normal channels of trade. The intent of Section 32 was to remove price-depressing surpluses from the market through Federal purchases and to put them to use in such a way as not to interfere with normal channels of trade. Fruits, vegetables, meat, and poultry are obtained under Section 32 authority. These foods are called Group A foods and are purchased by USDA's Agricultural Marketing Service (AMS).

In 1943, State agencies took over full administrative and financial responsibilities of the donated food program at the State level and became known as "distributing agencies." In 1946, the National School Lunch Act was passed. This Act provided for funds to be spent by USDA for agricultural commodities to be distributed among schools according to the needs and preferences of schools. Section 6 of this Act authorized USDA to purchase high protein meat and meat alternates that could not be obtained in sufficient quantities under other purchase authorities. Section 6 also required USDA to make donated foods available to States for school programs at a minimum level of commodity assistance. This level of commodity assistance is called the entitlement level.

Also during this time period, Section 416 of the Agricultural Act of 1949 authorized the acquisition and distribution of dairy products, grains, and oils through price-support activities. These foods are called Group B foods and are acquired by USDA's Farm Service Agency (FSA).

Historically, a State's entitlement level is composed of 80 to 90 percent Group A foods with the balance in Group B; however, this ratio may vary depending on market conditions and State preferences. Additional foods, known as "bonus" foods that are not counted against a State's entitlement level, may come from either Group A or Group B.

Although the food donation programs date back to the 1930's, the authority for processing donated foods has only existed since the first processing regulations were issued in October 1958. It was not until the early 1970's that FNS began taking an active role in encouraging donated food processing. The impetus for this encouragement came from changes in Child Nutrition legislation, guaranteeing a designated level of donated food assistance based on meals served within the State. As the supply of donated foods became more constant, States and schools saw the opportunity to convert donated products into more convenient or table-ready items. This change helped expand donated food use from a limited number of commodities to a broader array of commodities.

However, with the dramatic expansion in donated food processing, FNS and USDA's Office of the Inspector General (OIG) became aware that oversight responsibilities had not kept pace with program growth. Both agencies soon discovered that more controls were needed to protect Federal, State, and local interests. In order to determine the severity of the problem, OIG conducted two national audits in 1978 and 1985. These audits, which verified that the regulations governing the State Processing Program needed to be strengthened in program accountability, oversight responsibilities, and contractual provisions, resulted in two major revisions in the processing regulations in 1981 and 1986. The major areas of concern that were disclosed by these audits were:

- More State and Federal monitoring of processor operations was needed in the State Processing Program;
- Processors were maintaining excessive donated food inventory levels;
- Processors were substituting inferior quality commercial foods for donated food; and
- There were insufficient Federal regulations and guide-lines in place that contributed to poor program accountability.

Since that time, the Processing Program has dramatically changed. With the increase in the variety of donated foods made available by USDA came the need to maximize donated food usage to produce nutritionally sound, well-accepted meal items, while keeping labor costs to a minimum. Distributing agencies and processing companies soon learned that working together was beneficial for everyone concerned.

## **It's not Rocket Science**

The whole theory behind processing commodities is to get the school food service directors what they need, when they need it, at the best possible price. Commodities represent about 17-20 per cent of the food that is served in the school lunch program. USDA tries to buy commodities at the rawest level possible. School foodservice directors usually don't have the time, labor, or inclination to take the raw commodities and prepare them for meal service. USDA has made significant strides in getting out of the way and letting the States, recipients, and the processors set up business arrangements that are beneficial for all parties concerned. But, USDA does need accountability for the funds that are spent on behalf of the American tax payer.

## **G. GLOSSARY OF TERMS**

**Agreement- Donated Food, Processing:** A legal document entered into between a processor and USDA FNS, a DA, or eligible RA that provides for the further processing of USDA donated foods. Processing agreements are not viable until the DA approves them prior to the commencement to processing.

**Agriculture Marketing Service (AMS):** The USDA agency responsible for purchasing surplus-removal items such as meat, poultry, fruits, and vegetables. AMS also provides end product certification that, at a minimum, certifies against non-diversion and non-substitution of donated food. AMS purchases Group A commodities.

**Authorized Signature:** Signatures of company individuals responsible for all terms and conditions of the processing agreement. In a sole proprietorship, the owner must sign the agreement; in a partnership, a partner must sign the agreement; in a corporation, a duly authorized corporate officer must sign the agreement. If an employee other than these specified individuals signs the agreement, a power of attorney authorizing the employee's signature must accompany the agreement.

**Backhaul:** The pick up of a donated food from a State or recipient agency facility for processing and return. There may be an additional charge per pound to pick up the donated food.

**Batching:** This is a term used when the same kind of non-substitutable donated food is received by the processor from more than one State or locality, and those foods are combined during a production run. This term also describes the quantity of product processed in a cycle by the processor. Batching during production runs that involves direct delivery of product by USDA vendors is generally encouraged due to the benefits gained through increased efficiency during processing, reduced AMS grading costs, and potentially increased yields of finished product. Batching of product from several States may only be done with written concurrence of each State prior to reprocessing.

**Bonus Commodity:** A food item not charged against entitlement or against a program's appropriated funds. These foods are acquired through the price-support operations of the Commodity Credit Corporation or surplus-removal operations of AMS.

**Bulk Pack Chicken and Turkey:** Refers to chickens and turkeys that are specifically packed for further processing. Unless specifically required or agreed to by both the supplier and further processor receiving the product, this product will be delivered in a chilled (not frozen) form. Necks and giblets are not included with bulk pack product. Bulk pack turkeys may not be pre-basted.

**Buy-Back Parts:** Unused poultry parts not incorporated into end products. These remaining parts may be purchased by the processor, who would then credit the value to the DA or RA. Credit may not be given for primal parts such as breast and thighs or breast or thigh meat. Credit or buy-back arrangements between the DA or RA and the processor must be established prior to any processing, documented as part of the agreement, and made available to the grader.

**By-Products:** Products other than the specified end products produced during processing. If by-products are sold or used by the processor, their net value must be credited to the DA or

RA. Processors who do not sell or use any resulting by-products are not required to credit the DA or RA for the value of the by-products. In these instances, a processor arranges for the destruction of the by-product and incurs any costs associated with its destruction. Credit arrangements for by-products between the DA or RA and the processor must be established prior to any processing, documented as part of the agreement, and made available to the grader.

Poultry specific by-products: Typical by-products which result from processing poultry can be chicken broth, inedible bone, fat, skin, and tails. *Note: By-products can also be buy-back parts; see definition above.*

**Catch Weights/Random Weights;** Catch weight refers to the marked weights on products that, by the nature of their manufactured characteristics, are not packed to a standard weight. On these products, the weight of each container must be individually recorded. Recipient agencies, when releasing raw products with random weights to processors for further processing, should assure that the processor credits the actual net weights received instead of providing figures based on average net weights.

**Child Nutrition Labeling Program:** A voluntary program administered by the Child Nutrition Division of FNS that evaluates formulations to determine the contribution a serving of a commercially prepared product makes toward the Child Nutrition Program meal pattern requirements. When approved, a label is placed on the end product that states that the product meets USDA specifications and can be credited as a component(s) of the reimbursable meal pattern requirement.

**Commingle:** To store, combine, or blend commercial food and substitutable donated food together into a single inventory at a processor's plant.

**Comminuted Meat:** An edible product resulting from the mechanical separation and removal of most skeletal muscle of livestock from the bone or poultry carcasses. Comminuted meat can also be called mechanically deboned meat (MDM).

**Commodities:** Foods donated or made available for donation to eligible recipient agencies by USDA.

**Commodity File:** A USDA computer generated print-out that lists the donated food items, pack sizes, the most recent prices per pound, unit gross and net weights, commodity codes, and other information. The November 15 Commodity File is used to determine the appropriate contract value for each donated food for the upcoming agreement year that begins on the following July 1st.

**Condemned Meat:** Meat or poultry that has been determined by FSIS to be unfit for human food due to adulteration, disease, contamination, or other conditions rendering it unusable for human consumption. Condemned meat or poultry can also refer to product that has fallen on the floor or was improperly handled during production.

**Contract Value of Donated Food:** The price assigned by USDA to a donated food that reflects USDA's current acquisition price, transportation and, if applicable, processing costs related to the food.

**Contracting Agency:** The USDA, distributing agency, subdistributing agency, or recipient agency that enters into an agreement with a commercial food processor for the conversion of raw donated food into finished end products.

**Delivery Order Number (D/O):** A unique number assigned to each shipment of food. Each D/O number is comprised of series of numbers and letters in the following order: an alpha numeric 4 digit commodity code, the 3 digit State Agency number, the order year indicated by a single letter and a sequential 3 digit number to uniquely identify loads. Each delivery order specifies the State, quantity, shipping period, planned usage, and destination of a shipment. Multiple D/Os may be included on a food requisition.

**Direct Discount Sale:** The selling of a finished end product by a commercial food processor, directly to the distributing agency or the recipient agency. Under this procedure, the processor directly invoices the distributing agency or recipient agency at the commercial price minus the value assigned to the commodities contained in the case as a net case price. The processor must maintain delivery and/or billing invoices to substantiate the quantity of end products delivered and the net price charged per case.

**Direct Refund Sale:** The selling of a finished end product by a commercial food processor, directly to the recipient agency. Under this value pass-through system, the processor invoices the recipient agency directly for the commercial/gross case price of the end product. The recipient agency must then submit a refund application to the processor. Various methods of submitting the rebate application are acceptable. These include but are not limited to Email requests, using a distributor's velocity report, or the internet.

**Direct Shipment:** Food ordered by a distributing agency to be shipped directly from the USDA vendor to the processor, rather than shipping it to a distributing agency's or recipient agency's storage facility. Since the normal shipping practice is to ship foods to the distributing agency, this is sometimes called a "diverted shipment," "direct diversion," or "direct delivery."

**Distributing Agency (DA or SDA):** The agency, usually an agency of State government, which enters into an agreement with FNS for the distribution of donated food to eligible recipient agencies.

**Distributor:** A commercial food purveyor who purchases, receives and/or stores commercial food products or end product made using commodities. Distributors in turn, may sell, deliver, bill, or any combination of the three, the recipient agency or the distributing agency for the goods and/or services provided.

**Diversion:** A food shipment that has not been received (still in transit) that is rerouted to another location or State Distributing Agency.

**Donated Food:** Food donated or available for donation by USDA to eligible recipient agencies. Donated food is also referred to as "commodities." Even though most commodities are purchased with "entitlement dollars", those dollars were provided by law to eligible recipients.

**Economic Adulteration:** Addition of an ingredient(s) to a product in excess of the generally accepted needs of the end product that results in a lowered value of the item being produced.

**ECOS:** Electronic Commodity Ordering System is a federal system for recipients to use their entitlement money to order commodities to be purchased by USDA. The system also allows for recipients to be notified when the commodities that were purchased arrive at the further processor.

**End Product:** A finished product containing any amount of donated food that has been commercially processed.

**End Product Data Schedule:** A standard form used to describe the finished end product being produced. Information detailed on this form includes formulation, quantity of donated food needed to produce a specific number of units of end product, packaging and yield information.

**Fabrication Procedures:** The manufacturing procedures used in making further processed poultry products. For example, when grinding or chopping, the fabrication procedures may include type of equipment used, size of grind, speed of chop, or other procedures that would affect the quality of the finished product.

**Farm Service Agency (FSA):** The USDA agency responsible for acquiring Group B products such as grain, dairy, peanut, and oil products under price-support activity.

**Fee-For-Service:** The price charged by pound or by case representing a processor's costs of ingredients (other than donated foods), labor, packaging, overhead, and other costs incurred in the conversion of the donated food into the specified end product. Fee-for-service is an alternative to using a standard value pass-through system. It has traditionally been used when processing meat and poultry products or other non-substitutable donated foods.

**Food and Nutrition Service (FNS):** The USDA agency responsible for administering domestic food assistance programs.

**Food Distribution Division (FDD):** The FNS division responsible for administering the donation of commodities to domestic food assistance programs.

**Food Safety Inspection Service (FSIS):** The USDA agency whose primary mission is to inspect the wholesomeness of meat and poultry products.

**Formulation:** The quantitative listing of all ingredients contained in an individual end product.

**Full Substitution:** See substitutable food

**Grader:** A person licensed as a representative of AMS to examine and certify the production of end products containing USDA donated food.

**Gross Price:** Under processing, the price paid by the contracting agency before the value of donated food used in the production of the end product is considered.

**Guaranteed Minimum Return:** The minimum weight or number of finished units of processed product that will be produced and returned using a fixed amount of donated food. This information is obtained from information on the end product data schedule.

**Guaranteed Return:** A concept in red meat processing where the processor guarantees a fixed number of cases will be produced using a fixed amount of meat. Calculations are based on the pounds needed to produce a case of finished product (Col. 8).

**Grader:** An AMS employee that monitors production in either a poultry or red meat processing facility that utilizes donated food.

**Indirect Discount System:** When the processor sells finished product containing commodities to a distributor at a gross price and the distributor sells that product to an eligible recipient agency at the commercial price minus the value assigned to the commodities contained in the case as a net price. Under this system, the distributor must then apply for a refund from the processor for the value of the donated food. This system is also referred to as the “hybrid” system.

**Indirect Refund Sale:** A value pass-through system under which the processor sells end products containing commodities to a distributor at the commercial/gross price of the end product. The distributor then sells the end product to an eligible recipient agency at the commercial/gross price, plus delivery costs. The recipient agency then submits a refund application to the processor for the value of the donated food contained in the end product.

**Inventory:** The accounting of donated food for which a distributing agency, recipient agency, or processor is liable or responsible. In processing, the inventory can include food in physical inventory (on hand), in finished foods, or in book inventory. Processors who choose to deliver finished product before receiving donated food may encounter negative inventory. The processor does this at his own risk as USDA is not required to make the processor whole. See the definition of Perpetual Inventory.

**Limited Substitution:** A term describing a processor’s ability to substitute commercial poultry for USDA purchased poultry with the concurrence of both AMS and FNS. A written plan must be submitted and be approved by both agencies to be able to process poultry product under limited substitution. The limitation pertains to only allowing substitution for bulk poultry and parts. Substitution of backhauled products is prohibited.

**MGC-44 (fka/ LS-44) , USDA Donated Meat Production Information Form:** A red meat grading certificate issued by AMS grading that accompanies the monthly performance report. It indicates the total pounds of donated food put into production and the number of cases and/or pounds of end product produced from that starting weight.

**Mechanically Separated Meat (Comminuted Meat):** In poultry processing this term generally means the product that results from subjecting poultry frames to a mechanical deboning process where the raw product is finely ground and then by a mechanical separating process the meat is separated from the bone residue. The resulting product is generally used for manufacture of hot dog or bologna type products and, in lesser amounts, is sometimes added to other products such as cooked roll type products, nuggets, patties, etc. It should not be confused with another mechanical separation process being utilized by the poultry industry which yields product that has a somewhat coarser texture. This type of product is generally found to be more acceptable in ground chicken or turkey products or in other cooked products where a firmer texture in the finished product is desired. *Note: Product labeled as ground is generally recognized by the poultry industry and FSIS as being derived from whole bone-in parts with or without skin in natural proportion.*

**Manufacturing Yield:** The actual yield a processor achieves when converting raw commodities into a finished end product.

**Monthly Performance Reports:** Reports submitted monthly by the processor to the distributing agency detailing receipts of donated food, sales of finished end products to recipient agencies, and information on the donated food inventory.

**Multi-State Food Processor:** A processor who has entered into a processing agreement with agencies in more than one State, or a processor who has entered into a processing agreement with an agency that is in a State other than where the processor's plant or business office is located. If finished product crosses a State line, the processor is considered a multi-state processor.

**National Processing Agreement (NPA):** A processing agreement between multi –state processors and USDA where USDA approves all EPDS and holds the surety instrument for inventory protection. Used in conjunction with State Participation Agreements signed between the individual State and the processor.

**National Monthly Performance Report (NMPR):** A report submitted to FNS under the National Processing Agreement that summarizes the individual State monthly performance reports for the purposes of national monitoring of the processor's inventory balances.

**Net Case Price:** The price of a processed end product paid by the recipient agency after the value of donated food contained in the end product has been deducted from the gross price.

**“Net off Invoice” (NOI):** A variation of the hybrid sales system that allows a distributor's velocity report to the processor to act as the rebate application. These reports may be transmitted electronically.

**Non-substitutable Food:** A USDA donated food that cannot be substituted with a commercially purchased product under the terms of a processing agreement.

**One Hundred Percent Yield:** A requirement that 100 percent of the substitutable donated food given to the processor actually be contained in the finished end product returned to the eligible recipient agency. Any manufacturing losses (the difference between 100% and the manufacturing yield) are to be made up by the processor with commercial foods of domestic origin and equal or better quality than the commodity that was provided. This requirement was established to encourage efficient processing.

**Out-Of-Condition:** Foods found to be infested, deteriorated, or contaminated as the result of improper storage or latent defects for which the vendor, processor, recipient agency, distributing agency, etc., is responsible.

**Permeable Casing:** This refers to the primary container used to hold raw poultry products during the cooking and/or smoking process such as some turkey breast products or turkey ham casings. This type of casing allows for the loss of a certain amount of moisture from the product during the cooking and/or smoking of the product. Products cooked in this type of casing should be repackaged in a moisture and vapor proof casing before freezing.

**Perpetual Inventory:** A daily accounting record of the receipt and usage of donated food, which is updated with each transaction of receipt or usage. Perpetual inventory tracks on paper the amount of donated food that should be in physical inventory at any given time and is periodically reconciled with physical inventory.

**Pre-Plater:** A processor who takes commodities or finished end products made from commodities and repackages them as a component of an individual meal for use in school food service.

**Primal Cuts/Primal Meat:** The meat or product derived from the breast and thigh of chickens and turkeys. Products derived from the breast and thigh (intact meat portions) may not be purchased or credited by the processor under buy-back or credit procedures. **Note:** *Buy-back or credit can only be given for carcass parts such as drumsticks, wings, tails, skin, necks, comminuted meat and frames, and giblets (when present). Buy-back arrangements between the distributing agency and processor must be established in writing prior to any product processing.*

**Processor:** Any commercial facility which processes or repackages donated foods. However, commercial enterprises, which handle, prepare and/or serve products or meals containing donated foods on-site solely for the individual recipient agency under contract are exempt under this definition. School food authorities that provide meals to other eligible outlets are exempt from being defined as processors if they provide accountability for the commodities they are given and return any profit from the venture to their own school food service account.

**Production Records:** Records kept by the processor that document the production of the finished end product. The records show the types and amounts of ingredients used to produce the end product and the amount of end product produced.

**Production Run (Red Meat and Poultry):** Term used to describe a specified manufacturing period. In most cases, a production run is based on each end product manufactured as stated on an individual MCG-44 for red meat (beef or pork) or an individual grading certificate for poultry. The exception to this practice is when production occurs over two or more days and two or more MCG-44's or grading certificates are generated.

**Recipient Agency (RA):** Any of the following organizations within a State eligible to receive USDA donated foods: schools (public and private), residential child care institutions, charitable institutions, nutrition programs for the elderly, summer camps, Summer Food Service Program participants, and soup kitchens.

**Redonation:** Commodity that has been shipped to one State Distributing Agency (SDA), then returned to the custody of USDA, and then given to another SDA.

**Refund Application:** An application (usually a pre-printed form) completed by a recipient agency or distributor and sent to the processor that certifies the purchase of end products. Receipt of the refund application obligates the processor to refund the contract value of the donated food contained in the end products purchased. This application may be sent electronically.

**Refund System:** A value pass-through system by which a recipient agency purchases a processor's end products at the commercial price and receives from the processor, by means of a refund application, a payment equivalent to the value of the donated foods contained in the end products. *See the definition of Refund Application, Direct Refund Sale, and Indirect Refund Sale.*

**Rework:** Wholesome, salvageable product generated during a production run that is not acceptable as the specified product stated on the end product data schedule. Product such as broken patties or nuggets, or other defects such as missing breading, lumps, and ridges would be classified as rework product. Rework may NOT contribute to the yield achieved during a production run.

**Sale:** A sale represents the total number of units of a specific end product sold to a recipient agency. The documentation of a sale typically consists of a delivery ticket (showing the recipient agency signed for the particular product) and a billing invoice issued by the processor/distributor that delivered the product. Performance reports are compiled by summarizing the information contained in the sales documents for a specific reporting month. A processor may bill and report a sale each time a delivery takes place or he may choose to bill for product delivered over a specific period of time (i.e., on a monthly basis).

**School Year:** The school year begins each July 1 of the calendar year and ends June 30 of the following calendar year.

**Standard Yield (SY):** A concept that originated in poultry processing where the processor guarantees a fixed number of cases will be produced using a fixed amount of commodity. The standard yield is always fixed at a level that requires the processor to add some commercial product to achieve the required yield. Standard yield could be used for other commodities when a processor has significant manufacturing loss in the production of an end product.

**State Participation Agreement:** An agreement between an individual State and a multi-state processor which defines how the processor may do business in that particular State. Used in conjunction with a National Processing Agreement.

**Summary End Product Data Schedule:** A compilation of the information that was provided through the submission of individual EPDS's to USDA under a National Processing Agreement. This schedule provides relevant information to recipients regarding case weight, serving sizes, approximate servings per case, and the donated food needed to produce a case of finished product.

**Subdistributing Agency:** An agency performing one or more distribution functions for a distributing agency other than, or in addition to, functions normally performed by common carriers or warehouse operators. A subdistributing agency may also be a recipient agency.

**Substitutable Food:** A USDA donated food that may be replaced by a commercially purchased food of domestic origin and of equal or better quality to the donated food provided by USDA.

**Surety Instrument:** A bond or letter of credit that is provided to USDA or the State to provide protection against a loss of commodities by a processor.

**Tare Weight:** The weight of the donated food packaging (containers).

**Transfer:** A giving of commodity by an eligible recipient to another eligible recipient. Transfers between like recipients are approved by the State or States involved and transfers between unlike recipients must be approved by FNS.

**Truck Lot:** A quantity of food equal to a truck shipment. Generally, a trucklot is equal to approximately 40,000 pounds of donated food and contains between 700 to 1,400 cases of food, depending upon the food item. This quantity can be found in the commodity file.

**Value Pass-Through System:** A system used to ensure that the full value of the donated food contained in the end product is passed on to the eligible purchasing recipient agency. *See the definitions for Direct Sale, Refund, Indirect Sale, Fee For Service, and Discount System.*

**Vegetable Protein Product (VPP or TVP):** A product that can be used to satisfy all or part of the meat/meat alternate requirement of the Child Nutrition meal pattern requirements when combined with meat, poultry, or seafood. Vegetable protein products are safe and suitable edible products produced from vegetable (plant) sources, including, but not limited to soybeans, peanuts, wheat, and corn.

**Wholesomeness:** This term means freedom from external evidence of any disease or condition which may render a carcass or product unfit for food.

## H. Glossary of Acronyms

|         |  |
|---------|--|
| AAA     | Area Agencies on Aging   |
| ACDA    | <a href="#">American Commodity Distribution Association</a>                |
| AMS     | <a href="#">Agricultural Marketing Service, USDA</a>                       |
| CACFP   | <a href="#">Child &amp; Adult Care Food Program, FNS/USDA</a>              |
| CAP     | Commodity Acceptability Progress [Reports]                                 |
| CCC     | Commodity Credit Corporation, FSA/USDA                                     |
| CDC     | <a href="#">Centers for Disease Control and Prevention, DHHS</a>           |
| CI      | Charitable Institutions  |
| CIC     | <a href="#">Commodity Improvement Council, USDA</a>                        |
| CID     | <a href="#">Commercial Item Description</a>                                |
| CLOC    | Commodity Letter of Credit   |
| CPI     | Consumer Price Index   |
| CR      | <a href="#">Civil Rights</a>   |
| CSFP    | <a href="#">Commodity Supplemental Food Program, FNS/USDA</a>              |
| DA      | Distributing agency aka/ SDA   |
| DASNP   | Deputy Administrator for Special Nutrition Programs (SNP), FNS/USDA        |
| DHHS    | <a href="#">Department of Health &amp; Human Services</a>                  |
| ECOS    | <a href="#">Electronic Commodity Ordering System</a>                       |
| EFOs    | Emergency Feeding Organizations  |
| EPDS    | End Product Data Schedule  |
| FDA     | Food and Drug Administration, DHHS   |
| FDD     | <a href="#">Food Distribution Division, FNS/USDA</a>                       |
| FDPIR   | <a href="#">Food Distribution Program on Indian Reservations, FNS/USDA</a> |
| FEMA    | Federal Emergency Management Agency  |
| FFS     | Fee For Service  |
| FNCS    | <a href="#">Food, Nutrition and Consumer Services</a>                      |
| FNIC    | <a href="#">Food and Nutrition Information Center</a>                      |
| FNS     | <a href="#">Food and Nutrition Service, USDA</a>                           |
| FNSRO   | Food and Nutrition Service (FNS) Regional Office                           |
| FOIA    | <a href="#">Freedom of Information Act</a>                                 |
| FSA     | <a href="#">Farm Service Agency, USDA</a>                                  |
| FSIS    | <a href="#">Food Safety and Inspection Service, USDA</a>                   |
| FSMC    | Food Service Management Companies  |
| FSP     | <a href="#">Food Stamp Program, FNS/USDA</a>                               |
| FY      | Fiscal Year  |
| HACCP   | <a href="#">Hazard Analysis and Critical Control Point</a>                 |
| HHP     | Household Programs, FNS/USDA   |
| IFB     | Invitation For Bid   |
| ITOs    | Indian Tribal Organizations  |
| KCCO    | Kansas City Commodity Office, FSA/USDA                                     |
| NAFDPIR | National Association of Food Distribution Programs on Indian Reservations  |
| NFSMI   | <a href="#">National Food Service Management Institute</a>                 |
| NOI     | Net Off Invoice  |
| NPA     | <a href="#">National Processing Agreement</a>                              |
| NSIP    | Nutrition Services Incentive Program FNS/USDA                              |
| NSLP    | <a href="#">National School Lunch Program, FNS/USDA</a>                    |
| OANE    | <a href="#">Office of Analysis, Nutrition and Evaluation, FNS/USDA</a>     |
| OGC     | <a href="#">Office of General Counsel, USDA</a>                            |
| OIG     | <a href="#">Office of the Inspector General, USDA</a>                      |
| OMB     | <a href="#">Office of Management and Budget</a>                            |
| P.L.    | Public Law   |
| PCIMS   | Processed Commodity Inventory Management System                            |
| RFP     | Request For Proposal   |

|                |   |
|----------------|---|
| <b>S&amp;I</b> | Schools & Institutions  |
| <b>SBP</b>     | <a href="#">School Breakfast Program</a>                        |
| <b>SC</b>      | Summer Camps  |
| <b>SDA</b>     | State distributing agency aka/ DA                               |
| <b>SEA</b>     | State education agency  |
| <b>SEPDS</b>   | Summary End Product Data Schedule                               |
| <b>SFA</b>     | School Food Authority   |
| <b>SFSP</b>    | <a href="#">Summer Food Service Program, FNS/USDA</a>           |
| <b>SNA</b>     | <a href="#">School Nutrition Association</a>                    |
| <b>SNP</b>     | Special Nutrition Programs, FNS/USDA                            |
| <b>SOC</b>     | State Option Contracts [Program], AMS/FNS/USDA                  |
| <b>SPA</b>     | State Participating Agreement                                   |
| <b>SY</b>      | School Year or Standard Yield depending on the reference        |
| <b>TANF</b>    | <a href="#">Temporary Assistance for Needy Families</a>         |
| <b>TEFAP</b>   | <a href="#">The Emergency Food Assistance Program, FNS/USDA</a> |
| <b>USDA</b>    | <a href="#">United States Department of Agriculture</a>         |
| <b>VPT</b>     | Value Pass Through  |
| <b>WIC</b>     | <a href="#">Women, Infants and Children, FNS/USDA</a>           |

**I. Appendix**

|                       |   |
|-----------------------|---|
| <b>Appendix No. 1</b> | <b>Net off Invoice RA and Distributor Sample Agreement</b>                      |
| <b>Appendix No. 2</b> | <b>Fee for Service RA and Distributor Sample Agreement</b>                      |
| <b>Appendix No. 3</b> | <b>Policy Memo FD-025 Fee-For-Service Billing Methods Through a Distributor</b> |
| <b>Appendix No. 4</b> | <b>Vendor Meeting Sample Form</b>   |
| <b>Appendix No. 5</b> | <b>Cafeteria Manager Survey Sample Form</b>                                     |
| <b>Appendix No. 6</b> | <b>Food Sample Form</b>   |
| <b>Appendix No. 7</b> | <b>Student Survey I Sample Form</b>   |
| <b>Appendix No. 8</b> | <b>Student Survey II Sample Form</b>  |

**FEE FOR SERVICE  
RECIPIENT AGENCY & DISTRIBUTOR SAMPLE AGREEMENT**

*In an effort to protect recipient agencies (RA) and the integrity of the food distribution program, this sample agreement can be used as a guideline when preparing a scope of work, bid specifications, or contract for your entity.*

This agreement is for the 20\_\_ - 20\_\_ school year, between recipient agency (\_\_\_\_\_) and distributor (\_\_\_\_\_). Both parties signing below acknowledge our mutual responsibilities.

The following responsibilities are required for this fee for service through distributor agreement.

Distributor will invoice RA for: (check one)

- Handling/Storage/Distribution Fee Only  
 Fee for Service and Handling/Storage/Distribution Fees

1. Distributor will provide proof of added property insurance endorsement to cover any damage to commodity products while in their care.
2. Distributor will provide written fee schedule for any additional storage costs that the RA may incur after \_\_\_\_ days.
3. Distributor will provide deliveries according to the following schedule: \_\_\_\_\_
4. This agreement will be effective \_\_\_\_\_ (enter date MMDDYY)
5. Information provided to RA will be treated as proprietary and confidential. (Please specify which information).
6. RA or distributor may terminate this agreement for cause upon 30 days with written notification or without cause upon 60 days written notification of the other party.\* *(This statement must be consistent with the entity's boiler plate terms and conditions.)* Disposition of remaining inventory covered in this agreement will be in accordance to the terms and conditions of the processing agreement

If the distributor is invoicing the RA for the Fee for Service, then:

1. Distributor will provide two line items on their invoice – one for the fee for service amount and the other for the handling/storage/distribution fees. If they only provide one line item on the invoice, distributor will break out the fee for service and the handling/storage/distribution fees as required by FD-025 (March 29, 2004) providing the information to the RA.
2. Distributor will provide a usage/velocity report to the processor with products and cases delivered to the RA in a timely basis, week preferred. The RA reserves the right to obtain the same usage/velocity reports from the Distributor.

|                         |                          |
|-------------------------|--------------------------|
| Distributor Name        | Recipient Agency Name    |
| Distributor Contact     | Recipient Agency Contact |
| Phone Number/Fax Number | Phone Number/Fax Number  |
| E-mail Address          | E-mail Address           |
| Distributor Address     | Recipient Agency Address |
| City/State/Zip Code     | City/State/Zip Code      |
|                         | RA Number                |

**VALUE PASS THROUGH (NET OFF INVOICE)  
RECIPIENT AGENCY & DISTRIBUTOR SAMPLE AGREEMENT**

Appendix 2

*In an effort to protect recipient agencies (RA) and the integrity of the food distribution program, this sample agreement can be used as a guideline when preparing a scope of work, bid specifications, or contract for your entity.*

This agreement is for the 20\_\_ - 20\_\_ school year, between recipient agency (\_\_\_\_\_) and distributor (\_\_\_\_\_). Both parties signing below acknowledge our mutual responsibilities.

The following responsibilities are required for this value pass through agreement.

1. Distributor will itemize or note the value of the commodity on each invoice. If distributor is unable to provide more than one line on their invoice, they will provide a summary report of pricing noting the gross price and the value of the commodity.
2. Distributor will have the technology in place to meet the reporting requirements of the processor(s).
3. Distributor will provide RA with a summary of how they will handle sales verification, usage/velocity reports, and commodity tracking for audit requirements.
4. Distributor agrees to provide usage/velocity report on behalf of the RA to the designated processor(s) on a (specify frequency- weekly preferred) basis.
5. Distributor agrees to provide the product(s) specified in the bid and will not substitute other brands.
6. Distributor agrees to slot all products agreed upon on a regular basis.
7. Distributor will provide deliveries according to the following schedule:  
\_\_\_\_\_
8. This agreement will be effective \_\_\_\_\_(enter date MMDDYY)
9. Information provided to RA will be treated as proprietary and confidential. (Please specify which information).
10. RA or distributor may terminate this agreement for cause upon 30 days with written notification or without cause upon 60 days written notification of the other party.\* *(This statement must be consistent with the entity's boiler plate terms and conditions.)*

\_\_\_\_\_  
Distributor Name

\_\_\_\_\_  
Recipient Agency Name

\_\_\_\_\_  
Distributor Contact

\_\_\_\_\_  
Recipient Agency Contact

\_\_\_\_\_  
Phone Number/Fax Number

\_\_\_\_\_  
Phone Number/Fax Number

\_\_\_\_\_  
E-mail Address

\_\_\_\_\_  
E-mail Address

\_\_\_\_\_  
Distributor Address

\_\_\_\_\_  
Recipient Agency Address

\_\_\_\_\_  
City/State/Zip Code

\_\_\_\_\_  
City/State/Zip Code

\_\_\_\_\_  
RA Number



# Food Distribution National Policy Memorandum

Appendix 3

United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

3101 Park  
Center Drive

Alexandria, VA  
22302-1500

**DATE:** March 29, 2004

**POLICY NO.:** FD-025: State Processing

**SUBJECT:** Fee-For-Service Billing Methods Through a Distributor

Processing regulations at §250.30(e)(1)(iv) currently allow two types of billing arrangements when distributors deliver fee-for-service (FFS) processed end products.

- (A) A recipient is invoiced by the processor for the FFS and separately by the distributor for delivery and storage; or
- (B) The processor arranges for delivery through a distributor on behalf of a recipient. The processor's invoice includes separate, identifiable charges for both the FFS and the distributor's charges.

To bring delivery of processed commodities more in line with commercial distribution Practices, FNS will allow distributors to charge recipients a total case price if the Following requirements are met:

- Written assignment from the processor to the distributor as billing agent:  
Total case price = FFS contract price + Delivery and Storage charges.
- The distributor details, in writing, distribution fees to each recipient, so that the Recipient can identify what the total price represents on the invoice.
- Processor provides a list of all recipients and case allocations eligible for FFS Pricing to distributors, State agencies, and USDA upon request.
- Processor retains financial obligations for sales to ineligible recipients. The Commercial distributor can never assume this obligation. The processing Agreement is between the processor and the State agency and/or USDA.

Cathie McCullough  
Director  
Food Distribution Division

**VENDOR MEETING**

**DATE:** \_\_\_\_\_

**COMPANY NAME:** \_\_\_\_\_

**COMPANY REPRESENTATIVE:** \_\_\_\_\_

**BROKER NAME:** \_\_\_\_\_

**BROKER REPRESENTATIVE:** \_\_\_\_\_

+++++

**PRODUCTS SHOWN**

**1.** \_\_\_\_\_  
PRODUCT INFORMATION

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**2.** \_\_\_\_\_  
PRODUCT INFORMATION

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**OTHER:**

## FOOD & NUTRITION SERVICES

Appendix 5

### CATERIA MANAGER SURVEY

**PRODUCT:** \_\_\_\_\_

**DATE SAMPLED:** \_\_\_\_\_

1. Please rate the student acceptability of the product tested. (1-5, 5 being the best).
2. Do you feel this would be a good addition to the elementary school or junior high lunch menu? What about for faculty? How do you feel this item would be best used?
3. Please list any problems you would foresee with the product, such as preparation, serving, etc.
4. Please give any feedback you received from the students, as well as any input you have on the product.

Thank you for your input. Please return this form to Food & Nutrition

# FOOD SAMPLE FORM

DATE: \_\_\_\_\_

ITEM: \_\_\_\_\_

MANUFACTURER:

\_\_\_\_\_  
\_\_\_\_\_

CODE NUMBER: \_\_\_\_\_

CASE PACK: \_\_\_\_\_

BROKER: \_\_\_\_\_

**BROKER REPRESENTATIVE: NAME - E-MAIL - TELEPHONE NUMBER  
(or attach business card)**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**\*\* ATTACH NUTRITIONAL INFORMATION TO FORM**

**STUDENT SURVEY I – “HAMBURGERS”**

1. Which hamburger do you prefer? (Please circle the corresponding letter.)

**A**

**B**

2. Would you like to have this type of hamburger on the school menu?

**YES**

**NO**

3. Please write any comments you have

---

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**STUDENT SURVEY – “HAMBURGERS”**

1. Which hamburger do you prefer? (Please circle the corresponding letter.)

**A**

**B**

2. Would you like to have this type of hamburger on the school menu?

**YES**

**NO**

3. Please write any comments you have

---

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**STUDENT SURVEY II – “Cheeseburger Mac”**

4. Do you like the cheeseburger macaroni casserole?



5. Would you like to have this type of casserole on the school menu?

**YES**

**NO**

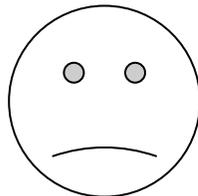
6. Please write any comments you have

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**STUDENT SURVEY – “Cheeseburger Mac”**

1. Do you like the cheeseburger macaroni casserole?



2. Would you like to have this type of casserole on the school menu?

**YES**

**NO**

3. Please write any comments you have

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