

## Single Inventory Recordkeeping System to Accommodate Commercial Labels on USDA Foods

One of the USDA initiatives for the USDA Foods program is to operate using best business practices where possible. Allowing vendors that supply foods to USDA to use commercial labels, rather than USDA labels, was piloted in 1996. Effective as of School Year 2002-2003, all vendors are permitted to use commercial labels on USDA Foods. With the loss of visual identification of USDA Foods, it is difficult for schools to inventory USDA Foods separate from purchased products.

Therefore, USDA granted states a waiver both from the regulation that requires participating schools to maintain a separate USDA Foods inventory and accounting system, and from the regulation that requires DPI, as a State Distributing Agency, from annual monitoring of each school's USDA Foods inventory. The waiver has been effective since August 1, 2002. This waiver allows agencies participating in the USDA Foods Program to use a single inventory recordkeeping system that includes both commercially purchased products and USDA Foods. School agencies may need a copy of the USDA Foods inventory waiver (OMB A-133 Compliance Supplement page 45) for use with local auditors. Therefore, a copy of the waiver is located at the end of this document.

### Implications and Changes with Using the Single Inventory Recordkeeping System

- The value of USDA Foods is realized when title passes to each school agency, rather than treating it as a deferred revenue until it is used by the school. This means that when the product is accepted it becomes the property of the school agency and should be treated as a *nonprofit food service account asset*.
- Commercial labels do not normally contain pack dates. Since the pack date is the basis for Best if Used by Dates, the Best if Used by Dates are typically lost. Therefore, each school agency needs to maintain good inventory practices.
- The following principles of good inventory management and control need to be maintained.
  - Proper storage and handling procedures
  - FIFO (first in-first out)
  - Good ordering procedures for USDA Foods (only ordering as much as can be used in a reasonable time frame)
- Each school agency needs to treat and safeguard its USDA Foods just like commercial products purchased with nonprofit food service account funds.
- School agencies may use the USDA Foods ***across programs***, as long as all the income accrues to the nonprofit food service account in the same manner income currently accrues from the use of commercial products purchased with nonprofit food service accounts. For example, a school district has a catering program that provides meals to all kinds of groups. The groups pay for the service and the money received goes into the same food service account that is used for the National School Lunch Program. In this situation, ***it is permissible*** to use USDA Foods for the catering. But in the same situation above, the

catering proceeds went into a different fund, such as the general school account, the USDA Foods **could not** be used for the catering.

- The state distributing agency (DPI) is not required to perform inventory reconciliation when performing local school audits, nor does DPI need to require school agencies to submit annual ending USDA Foods inventories. Assessing for damaged or out-of-condition USDA Foods at the recipient level is also not DPI's responsibility.
- Since a separate USDA Foods ending inventory is not required, there is no "Value of Ending USDA Food Inventory" figure for financial reports separate from "Value of Ending Purchased Inventory." Therefore, each school agency has a combined physical inventory and only one value reported for ending inventory. Each school agency has to decide how to determine the ending inventory value for food. Each school agency has the option of using the current commercial purchase price, the USDA Foods value, a combination of current purchase price and USDA Foods value, or any other method as determined by the school agency. Each school agency is strongly encouraged to work with local accountants in determining the best method for establishing ending inventory value. A year-end USDA food allocation and receipt summary (CARS) report *is* provided.
- Since the ending value of USDA Foods inventory is lost, adjustments may be necessary in electronic account coding. Again, school agencies are encouraged to work with local accountants to determine appropriate electronic account coding.

For further information regarding the single inventory recordkeeping system, please refer to the Q and A on page 3 of this document.

### **Q and A for Single Inventory Recordkeeping System**

Q. Does the single inventory recordkeeping system apply only to USDA Foods with the commercial labels?

A. No. When with the single inventory system, it applies to all USDA Foods regardless of whether the USDA Foods have commercial labels or USDA labels.

Q. Do all school agencies that participate in the USDA Foods Program have to adopt a single inventory recordkeeping system?

A. No. Each school agency has the option to use an inventory recordkeeping system that separates USDA Foods and commercial inventory. *Please note:* DPI does not monitor which inventory recordkeeping system your school agency has selected.

Q. What basis should your school use for establishing inventory values?

A. Each school needs to establish an inventory value for three different situations.

1. **Purchased inventory for which there is no USDA food equivalent** (such as catsup) - Each school should base the value on the net cost for that type of inventory. This value will probably be different for each school system.
2. **USDA Foods for which there is no commercial equivalent** (such as pouched salmon) - School agencies may or may not have products that fall into this category. The entitlement dollar value should be used for these products. A master file of the entitlement values for each USDA Food can also be accessed from the Programs' website: <https://dpi.wi.gov/school-nutrition/usda>.
3. **Inventory of foods that are both purchased and provided as USDA Foods** (such as canned fruits and vegetables)- There are three options for these types of products:
  - i. The net cost of purchased products could be assigned.
  - ii. The USDA Foods value listed on the monthly offer sheets could be assigned.
  - iii. An average of the net cost of purchased products and the USDA Foods value could be assigned.

Q. Since a separate USDA Foods inventory is not required, what inventory evaluation method should be used?

A. The same inventory evaluation method currently used by each school agency for purchased products applies to USDA Foods. For example, if the school agency uses FIFO (first in-first out) for purchased products, the school agency should use FIFO for its USDA Foods.

Q. How can USDA Foods with commercial labeling be tracked in inventory?

A. Upon receiving products from a USDA Foods delivery or a commercial vendor, they should be marked or identified as delivered from that particular distributor and with the receipt date. This will assist in practicing "First In-First Out" rotation, quick identification of products for hold and recall situations, and inventory tracking and management for planning and reporting purposes.

In order to identify USDA Foods that have a commercial label or to differentiate products received from various commercial distributors, we advise that a marking, such as an “x” be placed on the cases and inner bags/cans once the exterior case has been removed. Keep records and inform your staff of your coding system for products to maintain integrity of your inventory management.

Q. How is the value of USDA Foods used by food service management companies (FSMC) determined and passed on to the school agency, if inventory is not kept separate?

A. The single inventory method does not change the regulation requirements {210.16(a)(6)}. This provision requires that all USDA Foods received by the school agency and made available to the FSMC accrue only to the benefit of the school agency’s nonprofit food service. The school agency should use its existing method for ensuring that the value of purchased product inventories and USDA Foods inventories accrue to the benefit of the agency’s nonprofit food service account.

Q. Since USDA Foods are considered an asset as soon as the product has been accepted, are school districts that have incurred a product loss required to report this loss to the DPI?

A. No. When a loss of a USDA Food occurs after it has been accepted by the school agency, the school agency is not held accountable to DPI for the loss. The loss of a USDA Foods is treated the same as when the school agency has a loss of a commercially purchased food. If a school agency is unsure how a loss of commercially purchased food is handled, the agency’s local accounting auditor should be contacted.

Q. Are school agencies required to report transfer of USDA Foods to other agencies?

A. No. Since USDA Foods are considered an asset as soon as the product has been accepted, DPI is not involved in arranging or accounting for transfers to other agencies. Transferring of USDA Foods may still occur, however, arrangements will be made at a local level. Since the value of the USDA Foods has already been realized by the school agency, no additional entitlement is credited. It is the responsibility of the school transferring the product to recoup the transferred product value.

Q. Since USDA Foods are not identifiable by label, how are product complaints handled?

A. When a school agency has a complaint on a product, the school agency **should start by contacting the distributor(s)** to determine the manufacturer number and identify whether it was a product distributed by them. If the distributor(s) didn’t distribute the product, than it would probably be a USDA Food or a state processed USDA Food. If it is determined that it is a USDA Food or a state processed USDA Food, complaint form [PI-6005](#) should be completed, as per usual. A copy of the complaint form is also available on the DPI USDA Foods website: <https://dpi.wi.gov/school-nutrition/usda>. Also, since USDA food products are not identifiable by label, **it is essential** that the product lot number, box

number, and can code (if applicable) be included on the complaint form. If these numbers are not included, DPI will be unable to process the product complaint.

Q. Since USDA Foods are not easily identifiable by label, how will Food Safety Recall and Hold Procedures be handled?

A. Food safety recalls and holds will be handled following the current *“Hold and Recall”* procedures. Can codes and establishment numbers will be used to trace whether it is a USDA Food. When USDA issues a food safety hold or recall, the identifying codes and establishment numbers will be provided.

## 2. Accountability for USDA Foods

**Compliance Requirement** - Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind (7 CFR sections 250.16(a)(6) and 250.15(c)). Distributing and recipient agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

*Exception: Single Inventory Recordkeeping System* - In July 2001, FNS provided States with the option of adopting a single inventory recordkeeping system that combines purchased food and USDA Foods donated for the School Nutrition Programs into one system. This provision was made to accommodate conditions created by USDA's decision to purchase and distribute USDA Foods in commercial labels rather than USDA labels. Since USDA Foods would be visually indistinguishable from purchased food, maintaining separate inventories for the two classes in order to facilitate compliance with the foregoing requirements would be difficult. Therefore, FNS has granted States a waiver from these requirements. States that adopt the single inventory system, and SFAs under their oversight, are instructed to apply the same recordkeeping and inventory requirements to donated USDA Foods that they use to safeguard foods purchased with School Nutrition Program reimbursement payments.

More information on commercial labeling and the related regulatory waiver is available on FNS's Food Distribution web site at [www.fns.usda.gov/fdd/MENU/fd2000/udpates/stateupdates.htm](http://www.fns.usda.gov/fdd/MENU/fd2000/udpates/stateupdates.htm). After accessing the site, one should select option 10 (Most Frequently Asked Questions on Commercial Labeling and Inventory Management).

Therefore, auditors making audits of States that have elected to adopt the single inventory recordkeeping system, and of SFAs under such States' oversight, are not required to test compliance with this compliance requirement.

**Audit Objective** - Determine whether an appropriate accounting was maintained for donated USDA foods, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

### Suggested Audit Procedures

- a. Determine storage facility, processing, and end use locations of all donated USDA foods, including end products processed from donated foods. Determine the USDA food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.