POLICY ALERT

Date: May 31, 2007
Reference: # FDP 2007-4
To: Food Distribution Program (FDP) Contractors
Subject: Inventory Levels at Processors
Effective Date: Immediately

APPLIES TO PROCESSORS AND SCHOOLS ONLY

Purpose
This Policy Alert provides new information regarding carryover inventory at processors.

Implementation
Immediately

Procedure
The Texas Health and Human Services Commission (HHSC) monitors’ commodity inventories held at processors to ensure that the quantity of donated foods is at the lowest cost efficient level, but not more than a six-month inventory level based on the processor’s average monthly usage.

Inventory levels in excess of six-month usage could occur for several reasons. Common reasons are:

• Carryover inventory due to product not yet drawn down or deliveries scheduled late in the school year that are held in school accounts. Several processors hold inventory at the end of the school year so that product is available for delivery at the beginning of the new school year and districts do not have to store finished items over the summer;
• Schools placing orders into a specific processor and failing to use the inventory; and
• Schools failing to apply for rebates in a timely manner or not filing at all.

PROCESSORS

In June and December each year, HHSC will calculate inventory usage to identify excess inventory at the processor level. If excess inventory is found, HHSC will send a notice via e-mail or by letter to applicable processor(s) of excess inventory. Within 30 days of receiving notification that you have excess inventory, you must either request permission to maintain excess inventory and/or submit an Inventory Reduction Plan.

continued

This Policy Remains in Effect Until Further Notice
### Request to Maintain Excess Inventory

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| You would like to request approval to maintain inventory levels in excess of six-months usage, | Submit a written request, prior to the due date, that contains:  
• The processors name  
• Justification for the request  
• Signature and date of signature of Authorized Representative. |
| HHSC approves your request, | You will receive written notification of the approval. |
| HHSC disapproves your request, | You must submit an Inventory Reduction Plan. See steps for submitting an Inventory Reduction Plan below. |

### Inventory Reduction Plan

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| You do not request approval to maintain excess inventory, or if your request is denied, | Submit a written Inventory Reduction Plan, prior to the due date, that contains:  
• The processors name;  
• Steps the processor will take to review each school(s) inventory;  
• Steps the processor will take to contact each school(s) that has excess inventory to:   
  1. increase usage; or  
  2. transfer inventory to another school; and  
  3. timeframes in which this will be accomplished.  
• Date by which excess inventory will be less then six months usage.  
• Signature and date of signature of Authorized Representative. |
| HHSC approves your Inventory Reduction Plan, | You will receive written notification of the approval. |
| HHSC disapproves your Inventory Reduction Plan, | Follow the steps indicated in the Inventory Reduction Plan Rejection Letter to determine what is needed to submit an acceptable Inventory Reduction Plan. |
Contacting Schools with Excess Inventory

If schools with excessive inventory are non-responsive to your efforts to have them increase usage or transfer inventory to another school forward a list of these schools, with written documentation of your efforts, to HHSC. HHSC will compare your information against new orders these schools are placing. If necessary, any additional orders made by non-responsive school to the same processor will be rejected by HHSC.

Adverse Action

HHSC may discontinue orders to processors who fail to:

- Respond to excess inventory notification timely; and/or
- Receive approval to maintain excess inventory, if requested; and/or
- Submit and receive approval for an Inventory Reduction Plan; and/or
- Follow their approved Inventory Reduction Plan.

SCHOOLS

If your processor receives notification from HHSC that they have inventory levels in excess of six-month usage, you may be contacted by the processor via e-mail or letter. HHSC will work with processors to identify the schools who are not utilizing their commodity inventory or who have more inventory than they can realistically utilize in a reasonable amount of time. If you are contacted by your processor, you will be advised to increase usage or transfer inventory to another school.

Adverse Action

If your processor contacts you and you are non-responsive or do not cooperate by increasing usage or transferring inventory to another school, then your future orders to the same processor may be rejected by HHSC. HHSC may also transfer your excess inventory to another school that will use it. You will not receive Planned Assistance Level (PAL) credit for the values of the commodity that is transferred. If HHSC takes action to reduce your excess inventory you will receive an e-mail or letter notifying you of the action(s) taken.

Authority

United States Department of Agriculture Memorandum FD-064, Inventory Levels at Further Processors.

Contact

If you have any questions please contact the Commodity Processing Unit.