

USDA Policy No: FD-40 Processing, released July 16, 2021
Inventory Draw Down in USDA Foods Processing (Revised)
A review by JTM Food Group

There are four value pass through systems permitted under current regulations:

Refund or Rebate:

JTM Food Group sells end products to the State Distributing Agency (SDA) or Recipient Agency (RA) at the commercial, or gross, price and must provide a refund or rebate for the value of the USDA Foods contained in or needed to produce the end products. JTM Food Group must provide a refund to the appropriate agency within 30 days of receiving a request for a refund from that agency. Products sold under this value pass through system begin as commercial sales and are not recognized as sales of end products containing USDA Foods until USDA Foods inventory is confirmed and the rebate is issued.

RA:

- diverts pounds to JTM
- notifies JTM of delivery location of end items
- places orders with JTM or Distributor partner
- submits rebate request to JTM at a minimum: monthly

Distributor:

- places orders of end items with JTM
- delivers product to RA

JTM:

- must have SPA in place for this VPT system
- loads K12 bank for RA
- shares refund/rebate form for current SY
- ships end items to Distributor/RA
- issues check to RA within 30 days of refund/rebate request
- draws down pounds in RA account

Direct Discount

JTM Food Group must sell end products directly to the SDA or RA (i.e., distributors are not involved,) at a net price that incorporates a discount from the commercial case price for the value of USDA Foods contained in or needed to produce the end products. Inventory is drawn down from the appropriate agency's bank in K12 upon acceptance of the end product by the SDA or RA. Direct discount is used for commercial product and the price paid by the eligible recipient is calculated by subtracting the value of the USDA Foods contained in or needed to produce the product from the commercial price.

RA:

- diverts pounds to JTM
- notifies JTM of delivery location of end items



- places orders with JTM

JTM:

- must have SPA in place for this VPT system
- loads K12 bank for RA
- receives order directly from RA and produces end items
- ships end items to RA
- draws down pounds in RA account

Indirect Discount a.k.a. Net off invoice

JTM Food Group delivers end products to a commercial distributor, which must sell the end products to an eligible SDA or RA at a net price that incorporates a discount from the commercial case price for the value of USDA Foods contained in or needed to produce the end products. A commercial distributor is always involved under this system. Product sales under this system begin as commercial sales and the products being sold are commercial products. An SDA or RA procures commercial products from a distributor and the distributor procures those products from JTM Food Group. The distributor pays JTM Food Group at the commercial price. If the eligible SDA or RA to which the product is being sold has the necessary USDA Foods inventory with the JTM Food Group, the sale is converted from a commercial sale to an NOI sale. The SDA or RA then pays the distributor the NOI price which is calculated by subtracting the value of USDA Foods contained in or needed to produce the product from the commercial price and adding a fixed fee for storage and distribution by the distributor.

RA:

- diverts pounds to JTM
- notifies JTM of Distributor partner
- orders end items from Distributor
- monitors invoices from Distributor

Distributor:

- monitors K12 tracking website for RA allocation
- places orders of end items with JTM and receives invoice for commercial price of end items
- delivers product to RA, providing a discount on RA's invoice for the USDA Foods based on allocations to RA's bank in K12
- uploads transactions to K12 of shipment of end items where discount has been issued
- bills back to JTM for the USDA Foods pass through value in end items uploaded

JTM:

- must have SPA in place for this VPT system
- loads K12 bank for RA
- receives order directly from Distributor, produces and delivers end items
- invoices Distributor commercial price for end items
- upon receipt of bill back from Distributor, reviews K12 transactions and authorizes deduction

The practice, sometimes referred to as **closed stock-keeping unit (SKU) NOI**, under which JTM Food Group sets up a separate SKU for a specific NOI product and restricts the sale of that product to only agencies with the necessary USDA Foods inventory, is allowable under the regulatory definition of NOI.

Practices are identical to NOI as outlined above, with the following exceptions:

- this applies to JTM beef and pork end items only
- Distributor is to sell these JTM “CP” coded products ONLY to RAs with a bank for beef or pork

Fee-for-service

JTM Food Group must sell end products to the SDA or RA at a fee-for-service price, which includes all costs to produce the end products except for the value of the USDA Foods used in production. Three basic types of fee-for-service are used, including direct FFS, FFS through a distributor, and what is commonly known as modified FFS.

- **Direct Fee-for-service** - The SDA or RA procures end products directly from JTM Food Group, pays the FFS price, and JTM Food Group either delivers the product to the agency or the agency picks the product up from JTM. JTM’s invoice to the SDA or RA must identify any charge for delivery of end products separately from the FFS price³. Inventory is drawn down from the appropriate agency’s bank upon delivery or pickup. Direct fee-for-service is used for noncommercial product and the price paid by the eligible recipient is calculated by summing all the costs to produce the end product, not including the value of the USDA Foods contained in or needed to produce the product.

RA:

- diverts pounds to JTM
- confirms delivery location at RA’s warehouse
- orders end items from JTM

JTM:

- must have SPA in place for this VPT system
- loads K12 bank for RA
- receives order directly from RA and produces end items
- ships end items to RA
- draws down pounds in RA account

- **Fee-for-service through a distributor**- The SDA or RA procures end products directly from the JTM Food Group and separately procures storage and/or distribution services from a distributor. JTM Food Group ships multiple pallets of product to a distributor (or the distributor picks the product up from JTM) with a breakout of which RA owns which products. The agency pays JTM Food Group the FFS price and separately pays the distributor a fee for storage and/or distribution. Inventory is drawn down from the RA’s bank upon delivery to/pickup by the agency’s contracted distributor.

RA:

- diverts pounds to JTM
- confirms delivery location with JTM for Distributor partner warehouse
- orders end items from JTM

Distributor:

- communicates with JTM business practices for receiving end items
- receives end items from JTM with JTM’s breakout showing detail of product ownership
- delivers end items to RA
- invoices RA storage and delivery fees

JTM:

- must have SPA in place for this VPT system
 - loads K12 bank for RA
 - receives order directly from RA and produces end items
 - ships end items to RA's Distributor partner
 - provides a breakout to Distributor partner
 - invoices RA for end items upon shipment to Distributor partner
 - draws down pounds in RA account
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- Modified Fee-for-service- The RA procures end products from a distributor, pays the distributor the FFS price plus a fixed fee for storage and distribution, and the distributor delivers the end product to the RA. The distributor, acting as the RA's authorized agent, procures and purchases end products produced with USDA Foods from JTM Food Group on behalf of the RA and pays JTM Food Group the FFS price. Inventory is drawn down from the RA's bank upon delivery to/pickup by the RA's contracted distributor.
 - Beginning in SY22-23, to comply with USDA regulations, JTM will no longer operate under this system