



Food and  
Nutrition  
Service

**DATE:** August 22, 2016

**POLICY NO.:** FD-137: Processing

Park Office  
Center

**SUBJECT:** Alternative Value Pass-Through System Pilot Project under the Department of Defense Fresh (DoD Fresh) Program (Revision 1)

3101 Park  
Center Drive  
Alexandria  
VA 22302

The Food and Nutrition Service (FNS) is interested in increasing access to fresh fruits and vegetables via the DoD Fresh Program for school food authorities (SFA) participating in the Child Nutrition Programs, including the National School Lunch Program and the School Breakfast Program. In order to maximize SFAs' access to such produce, particularly for smaller SFAs, such as charter schools, which do not have the capacity on-site to directly receive and prepare produce for the meal service, FNS initiated an alternative value pass-through system (AVP) pilot project in accordance with 7 CFR 250.30(d)(1)(iii) in May 2015. In response to feedback from States participating in the pilot over the past year, this revised policy memo requires supplemental reporting from processors and requires State verification of credits provided by the processor to the SFA. Processors wishing to continue participation in the pilot will have to sign the attached revised NPA amendment to extend their participation in the pilot.

The AVP pilot project targets those commercial entities that prepare and plate school meals off-site at a commercial facility, including only DoD Fresh produce and no additional USDA Foods in the meals provided to the SFA. While the commercial entities may have characteristics of food service management companies, they are processors for purposes of this pilot project and pursuant to 7 CFR 250.2.

This pilot serves as a mechanism for these specific processors to facilitate smaller SFAs' use of DoD Fresh produce in the preparation and service of school meals. As part of the AVP pilot project, FNS will use the authority in 7 CFR 250.30(q), to waive and modify some requirements for participating processors, as discussed below. The processors will be required to enter into a National Processing Agreement (NPA) with FNS if operating in multiple States or an In-State Processing Agreement with the State where the processor does business, and will be required to agree to and sign an amendment to the processing agreement.

Under the AVP pilot project, a processor will credit the SFA for the full value of DoD Fresh produce upon receipt from the DoD vendor, based exclusively on the Defense Logistics Agency (DLA) invoice price. For the purposes of the AVP pilot project, a processor may credit the SFA within the billing period in which the produce was received, or on the invoice that pertains to the period in which the produce was received. The credit may not be reduced due to any unaccounted for loss, damage to, or improper use of the DoD Fresh produce which may occur while in the control of the processor. During the pilot project, participating processors must maintain delivery receipts and/or billing invoices, production records, and/or other documentation as

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applicable, in accordance with 7 CFR 250.19, to substantiate that SFAs are properly credited for all DoD Fresh produce received by the processors. This AVP pilot project may include all DoD Fresh produce currently available via the DoD Fresh Program, and delivered to off-site processors.

Processors interested in participating in this AVP pilot project must complete, sign, and submit an amendment to the standard NPA or In-State Processing Agreement to FNS or the State distributing agency, as applicable. Under the amendment, processors would be exempt from requirements related to end product data schedules and monthly performance reports as otherwise required by the NPA. In order to evaluate the integrity of this alternate value pass-through system, processors must submit a monthly report to the State distributing agency of the credits provided to each SFA participating in the pilot with the processor. State distributing agencies must annually validate the report of credits for one or 10 percent (whichever is greater) of SFAs participating in the pilot in the State. State distributing agencies may include additional reporting requirements or provisions as part of their administration of the pilot project.

To ensure protection of DoD Fresh entitlement resources, processors participating in the AVP pilot project must continue to comply with all inventory protection requirements pursuant to the NPA or In-State Processing Agreement, as applicable, and in accordance with policy memorandum FD – 134 Processing, Minimum Inventory Protection Requirements for Processors Participating in the National Processing Program (March 21, 2014). In lieu of using monthly performance reports to set bond amounts, under the pilot project, processors must submit to FNS or the State distributing agency, as applicable, a list of all SFAs for which they will be receiving DoD Fresh produce. FNS or the State distributing agency, as applicable, would then establish appropriate bond amounts prior to DoD Fresh produce being received under this AVP system.

FNS will periodically assess this AVP pilot to identify successes and challenges, and determine long-term viability. While the additional flexibility provided by the pilot project will benefit SFAs that may not otherwise be capable of receiving DoD Fresh produce, FNS may close the pilot project should circumstances warrant.

Processors operating in multiple States must obtain approval from USDA FNS to participate in this pilot, via the NPA process and the attached NPA amendment. NPA resources and Starter Kit can be found on the FNS website by following this link: <http://www.fns.usda.gov/fdd/usda-foods-processing-home>.

The attached NPA amendment provides language which can be used for an In-State Processing Agreement with some modification, particularly to Section citations.

Please submit questions and completed National Processing Agreements to [NPA@fns.usda.gov](mailto:NPA@fns.usda.gov).

*/s/ Original Signature on File*

Laura Castro

Director

Food Distribution Division

USDA Food and Nutrition Service

Attachment

## **NATIONAL PROCESSING AGREEMENT**

### **Amendment A: Alternative Value Pass through System**

As per Section 3.A.3 of this agreement, the United States Department of Agriculture (USDA), Food and Nutrition Service (FNS) approves the alternate value pass-through system (VPT) described in this Amendment on behalf of the following processing company (Processor) for *a period of one school year (July 1 to June 30) once signed by FNS*. The National Processing Agreement for this Processor is therefore amended as described below.

Company Name \_\_\_\_\_  
Address \_\_\_\_\_  
City, State, Zip Code \_\_\_\_\_

### **NATIONAL PROCESSING AGREEMENT AMENDMENT: ALTERNATIVE VALUE PASS-THROUGH SYSTEM FOR PROCESSORS UTILIZING DEPARTMENT OF DEFENSE FRESH PRODUCE**

An alternative value pass-through (VPT) system may be used by the Processor in conjunction with the receipt and use of Department of Defense Fresh Produce (DoD Fresh) items, which are considered donated foods (DF). This alternative VPT system requires the Processor to pay or credit the school food authority for the full value of the DoD Fresh items within the billing period in which the items were received or on the invoice that pertains to the period in which the items were received, upon receipt by the Processor from the DoD vendor. The value will be based exclusively on the Department of Defense, Defense Logistics Agency (DLA) bill price.

Specific articles of the NPA will be modified as described below for Processors utilizing this alternative VPT system for DoD Fresh items. The State Distributing Agency (DA) may require reports or impose additional restrictions as necessary to ensure effective and efficient program management. Processor must comply with DA requirements in this regard. Depending on whether the Processor is multi-state or in-state, the Processor utilizing this alternative VPT system must submit to the USDA or DA, as applicable, a surety bond, an irrevocable letter of credit, or an escrow account, as per Article 19 of this agreement.

Article 5: End Product Data Schedules – Processors utilizing this alternate VPT system are not required to submit End Product Data Schedules or Summary End Product Data Schedules to FNS or DAs for approval. All meals created by the Processor utilizing DoD Fresh are considered part of this agreement on the signed effective date.

Article 13: Transfers – Transferring DoD Fresh items or the value of DoD Fresh items is prohibited under this alternative VPT system.

Article 14: Inventory Reductions – Are not applicable to this alternative VPT system because the RA receives credit or is paid for the value of DoD Fresh items in the same billing cycle when the produce is received from the DoD Fresh vendor.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

Article 15: Performance Reporting – In utilizing DoD Fresh, the Processor is not required to submit State or National monthly performance reports, unless required by the DA in an in-State Processing Agreement or in the NPA State Participation Agreement. The Processors must submit a monthly report to the State distributing agency of the credits provided to each SFA participating in the pilot with the Processor.

Article 19: Inventory Protection –NPA Article 19 protections and requirements apply to DoD Fresh items used by the Processor under this amendment. In addition, the Processor must submit a list to FNS for multi-State processors, or to the DA for in-State processors, of all recipient agencies for which they will be receiving DoD Fresh items prior to receiving any DoD Fresh items. This list will be used to calculate the average monthly value of DoD Fresh items to be received by the Processor for which inventory protection is required. This list must be updated and submitted to FNS or the DA, as applicable, when recipient agencies are added or removed during the school year.

Article 22: Sources of Donated Food for Processing – The Processor may only receive USDA entitlement foods from DoD Fresh Program vendors.

Article 36: Period of Agreement – This agreement amendment shall become effective on the date signed by FNS for multi-State processors, or by the DA for in-State processors, and will remain in effect for one school year (July 1 to June 30) unless terminated with written notice by either party. The agreement amendment shall be renewable for additional school years with the agreement of FNS or the DA, as applicable.

Article 37: Agreement Specific Processing Arrangements – Processing is limited to DoD Fresh items, which are not subject to substitution and yield requirements. The performance and surety bond, letter of credit, or escrow account will be determined annually by FNS for multi-State processors, and by the DA for in-State processors.

ALL PARTIES AGREE TO AGREEMENT AMENDMENT BY SIGNING BELOW:

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**PROCESSOR (MUST BE SAME AUTHORIZED REPRESENTATIVE AS SIGNED PRIMARY AGREEMENT)**

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

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**FNS APPROVAL**

Name: \_\_\_\_\_ Title: Director, Food Distribution Division

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

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\*Section citations pertain to NPA; cites must be updated for use with In-State Processing Agreement.