



Food Distribution National Policy Memorandum

United States
Department of
Agriculture

Food and
Nutrition
Service

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POLICY NO.: FD-052: Food Distribution Program on Indian Reservations (FDPIR), Emergency Food Assistance Program (TEFAP), Commodity Supplemental Food Program (CSFP), National School Lunch Program (NSLP), Child and Adult Care Food Program (CACFP), Summer Food Service Program (SFSP), & Nutrition Services Incentive Program (NSIP)

SUBJECT: Annual Physical Inventory – Reconciliation and Offsetting

This memorandum provides guidance on how to reconcile physical and book inventories as part of the required annual physical inventory of distributing agency (DA) and subdistributing agency storage facilities, and provides guidance on offsetting inventory shortages and overages that are identified during the reconciliation process.

Under section 250.14(c) of the Food Distribution Program regulations, all storage facilities at the DA level must be reviewed annually, and the DA must ensure that subdistributing agencies conduct annual reviews of their storage facilities. Under section 250.14(e), DAs and subdistributing agencies must perform a physical inventory as part of the annual review, and the physical inventory must be reconciled to the book inventory. Finally, under section 250.16(a)(1), DAs and subdistributing agencies must maintain complete and accurate records with respect to the receipt, distribution/use and inventory of donated foods. (Note: a school food authority that is a subdistributing agency but that does not warehouse donated foods for another recipient agency is not subject to these requirements.)

As a result of the physical inventory and reconciliation to the book inventory, it is possible that a DA or subdistributing agency storage facility will identify shortages and overages in the inventory of specific items of donated commodities. (A shortage occurs when the physical inventory count is less than the count from the book inventory; an overage when the physical inventory count is greater than the count from the book inventory.) The overages may be used, under the appropriate circumstances, to “offset” the shortages, thus reducing the total loss recorded, and also reducing any claim against the storage facility for the loss. This memorandum details how these shortages and overages may be handled as part of the reconciliation and claims processes, and discusses how the reconciliation of physical and book inventories must be handled. The main points are:

- The DA must approve all proposed offsets;
- If the cause for a shortage can be determined, and if the loss results from theft, fraud, or negligence, then the shortage may not be offset and the loss must be reported as required in section 250.15(c);

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- Offsets will be made on the basis of value and not weight;
- Commodities included in the offset are not required to be of like or similar kind;
- Bonus and entitlement commodities may be used for offsets;
- End products may be used for offsets – value to be used is the value of donated commodities in processed product, plus any processing fee; and
- Offsets may occur as part of the annual review, or as part of any reconciliation that meets the standards of an annual review (physical inventory, reconciliation to book inventory, DA involvement).

The total amount of donated commodities to be accounted for through the physical inventory and reconciliation is the sum of the ending inventory from the previous annual review (also known as the starting inventory for this review period) plus the total donated commodities received by the storage facility, per the records maintained by the DA. From this figure the total shipments from the storage facility, per the records maintained by the storage facility, should be subtracted, resulting in the ending book inventory for this review period, which is the total remaining inventory to be accounted for (the annual review should include a review of the records maintained by the storage facility to ensure the record of shipments out is properly maintained and can be verified). To recap, the starting inventory plus receipts minus disbursements equals the ending book inventory, which should equal the physical inventory at the time of the review. Any discrepancies between the ending book inventory and the physical inventory must be recorded and must be investigated by the storage facility to determine, if possible, the cause or causes for those discrepancies.

When the physical inventory is complete, the DA may consider, as part of the reconciliation process, whether to offset any shortages identified with any overages that are discovered. The DA should compile a complete list of the overages and shortages, and include the results of the investigation into the cause or causes of the discrepancies. If the cause of any shortage can be identified, and if it results from theft, fraud, or negligence, then the shortage may not be offset and must be reported as a loss under Section 250.15(c). The proposed offset must be on the basis of the value of the commodities, using the commodity values detailed in Section 250.13(a)(5). A consistent basis for valuation must be used throughout the reconciliation and offset process. DA approval is required for any proposed offset, and the DA may make any adjustments in the proposed offset it determines are in the best interests of the program.

There is no limitation on the overall value of offsets that could be allowed as part of a single reconciliation. However, in determining whether to approve the proposed offsets the DA should consider the following factors:

- The total value of the proposed offsets;

- The percentage of the total donated commodities involved in the proposed offsets;
- The desirability of the commodities identified as overages, and the ability to distribute those commodities efficiently and without waste;
- The previous history of offsets at the storage facility; and
- The investigation by the storage facility of the cause or causes for the discrepancies, and the results of that investigation

The offset process includes all donated commodities, including entitlement and bonus commodities, and may also include processed commodities. The commodities involved in the offset process are not required to be of like or similar kind, and overages and shortages in entitlement commodities may be offset with overages and shortages in bonus commodities. For example, an overage of \$250 of bonus orange juice may be used to offset a \$250 shortage of entitlement frozen meat. In addition, processed commodities may be included in the offset process, provided the correct valuation is used, which is the value of the donated commodities included in the end product, plus any applicable processing fee that was incurred. In short, the offset should be performed on the basis of all overages against all shortages (except those caused by theft, fraud or negligence) identified through the physical inventory and reconciliation process. Any remaining shortages must be reported as a loss under Section 250.15(c) and may result in a claim being filed against the storage facility. Any remaining overages remain the property of the program and must be included in the inventory for that program going forward.

Complete records of the reconciliation of the physical inventory to the book inventory, including any offsets that are applied, must be maintained as required under section 250.16(a)(1), and these records are subject to review by the FNSROs. If it is determined, from a review of those records, that the DA improperly approved offsets, then a claim may be assessed against the DA under section 250.15(c) and FNS Instruction 410-1.

A storage facility that performs a full reconciliation at times other than the required annual review may be permitted to offset overages and shortages at those times, provided that the reconciliation performed meets the same standards as the reconciliation performed as part of the annual review. Thus, the DA would have to be involved in the reconciliation process, and the book inventory and physical inventory would have to be reconciled as indicated above. In addition, as noted above, DA approval is required for any offsets.



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