

Sweeps Policy Subcommittee Survey Results
Suggested Sweeps Policy for State DAs
November 2021

“Sweeps” are the process of state agencies removing and/or adjusting allocations at the recipient agency level to address unused commodity allocations. The Sweeps Policy Subcommittee’s primary goal was to collect information on sweeps policies and to suggest best practices to state agencies for consideration during future policy and procedure creation and implementation, as well as report any additional information on the success or obstacles for such policies.

With the guidance of FD-064 revised, where *USDA Foods should only be diverted to processors in amounts needed to produce the quantity of end products that SFAs can efficiently utilize during the school year*, the committee gathered information through surveys from the state agencies and processors. The purpose of this document is to summarize the survey results from both groups and establish a list of best practices and the rationale to support them. It should also be noted this work happened during the COVID-19 pandemic, where State DAs and processors worked with USDA on a national rebalance plan to address as little remaining inventory at the end of the school year. During the comments section of this proposed Best Practices, the industry continues to face challenges head on with an unprecedented Global Supply Chain crisis.

This committee’s primary focus was on further processed commodities (USDA Foods bulk for processing), sold through commercial distribution (indirect sales discount).

State Survey Results

An initial survey was sent to state agencies to collect information on how each state is addressing carry over and whether they are utilizing sweep policies. The State DAs were asked about policies prior to the pandemic, as well as flexibilities in the current SY due to school closures. 36 states responded to the survey, where the questions and summary of responses are below.

What is your state’s sweep policy?

Currently each state has their own process to sweep, and the methods are as diverse as each state. For example, some states do not implement a sweep policy, allowing the recipient to carry over all their remaining pounds. While other states sweep annually, semi-annually, or monthly. Additionally, states may sweep all pounds at the end of the year, in October for the previous year carry over, or have a calculation that they apply one or more times per year. Some states will take the swept pounds into account for future allocations, others will use them for recipients that run out of diversions. These diverse approaches to managing the remaining commodity balances can be a challenge for participants trying to manage the accounts’ assets.

Will your state allow schools to carry over pounds in the new SY?

25 States reported they would allow schools to carry over pounds
11 States will not allow schools to carry over pounds

Will these carryover pounds be swept at any point prior to June 30th?

15 states will sweep pounds before June 30th

What Month will these pounds be swept?

States reported sweeps being applied throughout the year, but the majority were in the first part of the school year (October - 4, November - 2, December - 2, January - 1, February - 2. April - 1).

Will your State place carryover pounds into the State account to be reallocated to schools that request them?

11 states reported sweeps are accrued in a state account for reallocation.

Will these carryover pounds be swept at any point prior to June 30th?

3 states reported sweeping excess pounds into a state account before June 30th for the school year.

What month will these pounds be swept?

The above 3 state's sweeps in May, June or July--when transferring to a state account.

Will your State place carryover pounds into the State account to be used for SY21 allocations?

All 3 states utilize the excess pounds for the next school year's allocations.

In summary, the majority of states do implement a sweep policy with most allowing a recipient to carry over pounds. The majority of states have an end of the year sweep for all remaining pounds, but a few implement various calculations at varying times throughout the year. Some calculations require the determination of a usage percentage at a point in the year, and pounds under that percentage will be removed, others are based on removing carry over from the prior year and are not used by a certain date.

Processor Results

After completing the state survey the committee felt it was important to request additional feedback from the processors. Since the processors and their teams work

closely with the state and recipient agency to implement the sweeps policies, obtaining processors' opinions of what policies were working and the amount of time that was needed to implement the sweeps would be helpful -- 35 processors participated in the survey.

What time of year do you find most effective to do the sweeps?

From the survey responses, 21 processors felt that the end of year (June-July) was the most efficient time for sweeps, with mid-year (December-January) coming in a close second with 19 responses. While both Fall (September - November) with 5 responses, and Spring (March -April) with 3 responses, came in at a distant third and fourth. A few responses did mention monthly sweeps or the ability to move pounds as needed was an important tool for managing balances.

What sweeps do you find the most efficient and why?

Processors felt Fall sweeping of carryover is beneficial, but having multiple calculations makes it time consuming to determine amounts and implement changes. Fall sweeps also allow the ability to cancel future trucks, if needed. Additionally, the ability to remove allocations from inactive accounts in the Fall allows the processor time to sell against the transferred pounds. Mid-Year gives the processor time to work with schools that can utilize the transferred pounds. There were no processors who felt spring transfers were beneficial. Many processors felt end of year sweeps were the cleanest and easiest method of sweeps. There are no transfers back and forth, no calculations, and gives the school time to use their allocation for the entire year. Several processors felt monthly transfers were beneficial because it allowed them to transfer the pounds as quickly as possible for utilization with another recipient.

How much time was spent analyzing and implementing the sweeps?

The amount of time and resources working on sweeps varied drastically from minutes to days or even weeks. Processors with large amounts of commodity business across more commodities and states required much more time and resources, with poultry manufacturers seeming to have the most time invested. Most processors felt they spent an inordinate amount of time working on sweep policy requirements.

Are there any outside circumstances that add time to the process? (IE – specific forms, required calculations, distributor reporting time frame)

The vast majority of processors felt that reports and forms were the most cumbersome obstacle, with calculations to determine what should be swept a close second.

What do you find to be the best practices to reduce the need for sweeps?

Proper planning was one of the top suggestions for reducing the need for sweeps. Survey, planner and forecasting tools are critical for having allocations

properly forecast. This is a critical step to preventing over allocation. Understanding that plans will change, the next important practice to reduce sweeps is communication. This is critical to adjust allocations based on new or unforeseen circumstances. The recipient agency must communicate menu and/or product changes to the manufacturer's representative as soon as possible, so issues can be addressed.

Communication between the manufacturer, USDA, State DA, recipient agency, and broker if applicable, is extremely important. Accounts should be monitored on a regular basis and low or no usage addressed as soon as possible.

States allowing processors to move pounds as needed, throughout the year, is extremely beneficial. This allows for allocations to be moved to recipients that can utilize the pounds, and not allow the allocations to sit stagnant in a recipient's account. However, this does not remove the need to track each recipient agency's individual utilization.

Besides the current pandemic, what circumstances contribute to low usage?

There are several obstacles for participants in the commodity program to overcome. Change in management / leadership and changes from self-op to management company can have a drastic impact on utilization. Many times a new manager may be unaware of the diversions or may prefer a different provider. Competition from USDA direct delivery items can reduce or eliminate the need for certain processed items. Distributors substituting non-processed products due to a variety of reasons, can have a negative impact on the recipient's utilization. It is also critical that distributors communicate those sales in a timely manner to the manufacturer to allow proper reporting and drawdown can occur.

Are you a whole bird poultry processor?

There were 8 manufacturers that reported processing poultry. Poultry adds an additional challenge to the processor due to the separation of white and dark meat banks for tracking and reporting. In addition, these banks must be drawn down in the proper ratio to prevent a large carry over of one or the other.

How do you handle white/dark poultry imbalance?

Most poultry processors will take advantage of transferring between schools to balance usage within a state. Additionally, some will offer promotions to encourage recipients to use the banks that are falling behind in usage. Some poultry processors have implemented independent drawdown which will allow a district to receive a white or dark only discount on a product that has both--this allows a mixed product to continue to draw down whichever commodity the recipient may still have available.

Is this a regional issue, a national issue, or a function of VPT method?

While 4 processors felt this was a national issue, only 1 felt it was a regional issue. Some processors touched on the value pass through method as part of the issue, stating that Fee-for-Service was less likely to have carry over and white/dark poultry bank imbalances.

Any ideas on how to resolve the imbalance?

Some of the suggestions we received from manufacturers were separating out the white and dark meat into two separate commodities. This would allow the two to run completely independent of one another, and allow a recipient to divert just dark or white meat based on their menu requirements. Others suggested allowing conversions from dark to white and white to dark, giving the manufacturer the ability to bring the bank back in balance. Finally, encourage use of processed commodity pounds before placing USDA direct delivery orders.

Which States do the best job of managing white/dark poultry balances?

There does not seem to be any active management other than reminding manufacturers there are imbalances and asking for a plan to correct.

How do you address schools with large carryover balances to ensure they draw down these pounds early in the new SY?

- Assist with proper next year diversions: Calculators, forecasting tools
- Assist RAs with menu ideas
- Communication is key
- Meeting/speaking with schools about plan for usage
- Reminding them of sweeps policy
- Request they release pounds that cannot be used to another RA
- Reporting
- Frequent Reminders of balances

Which do you think would be most efficient?

- Current System where states develop their own (5)
- Hybrid between state and fed (14)
- National Standardized Sweep policy (16)

Suggested Best Practices

“Sweeps” has a different connotation to different participants in the program. To a State Agency, it may represent unused commodity assets that might impact their management review. To a recipient agency it may represent unused assets that they may lose. Processors may see sweeps as missed sales, or unused assets that might

increase their bond. The one thing that everyone agrees with is the recipient should use the commodities they have requested.

With most further processing manufacturers front-loading allocations, there is little justification to “save” commodity for future years. Additionally, USDA is encouraging recipients to use the commodity in the year for which it was allocated. The most important thing that can happen to prevent “sweeps” is for the recipient agency to do their due diligence to properly forecast their commodity usage. Forecasting is not an exact science, and there are a lot of unforeseen issues that can occur between the request for commodities and the start of a school year. Recipient agencies should have an understanding of requested commodities and the items that will be impacted if changes occur to the menu or supply difficulties. These changes need to be communicated to the processor (& distributor, brokers, vendors and reps and RAs) as soon as possible to adjust product selection or usage expectations.

The subcommittee understands that each state has unique requirements and circumstances, and that all suggested practices might not work in all circumstances, but the success of the program requires us to continually evaluate our programs and look to simplify and standardize, when and where it is possible. The best practices should benefit all parties participating in the USDA commodity program, and allow recipient agencies to successfully utilize their commodity funds.

Suggested Best Practices and timeline for all Stakeholders

- End of previous SY, ensure processor has completed calculator form with estimated monthly cases by SKU to include involvement of RA’s menu planner if someone with the RA entered the allocations,
- End of previous SY / beginning of new SY: RAs, Coop directors, processors & broker, if applicable work with distributors on getting everything set-up correctly (new item set-up at distributor, sales channel is entered correctly, products forecasted are awarded) with utilization goal of 10% after first 4 weeks,
- Mid-year, RA’s communicate changes in participation which is impacting utilization, product acceptance (possible product change) to processors, distributors, coop directors & brokers, if applicable where utilization goal is 50% with a plan to utilize all remaining pounds by June 30th or transfer pounds to RA that can utilize by June 30th.
- Spring, RAs with high balances should work with all stakeholders in adjusting plan for following SY. Per FD-064 policy (and some State policies) utilization goal is 100% by June 30th.
- SDAs should also communicate frequently with schools whose balances are not within 10% of par.

Recipient Agency suggested Best Practices

Through this process we have realized that the easiest sweeps policy is no sweeps policy at all. With proper planning and attention to commodity banks, recipients should be able to utilize the commodities they requested. Recipients can take advantage of

various tools that processors and states provide to assist with proper menu planning and forecasting. Additionally, regular communication with all stakeholders (processors, state agencies, distributors, brokers, recipient agency (RA)) can keep expectations and balances in check. Stay on top of verifying your deliveries, via K12Foodservice.com and ProcessorLink.com websites, to keep on top of your unused pounds. Request Vendor Analysis to assure the accuracy of product that has been delivered to date.

With that, planning is not always an easy task, commodity plans are often put together 6 to 8 months before the school year starts, and frequently the bid will not be completed for a few months. There can be a lot of work to make an accurate plan, and it doesn't require very much to throw off a plan and utilizing old numbers may seem like a good option with all that can go wrong, where this will only compound problems. RAs should take time to review their plan and make the necessary adjustments to participation and products.

Even with the best of intentions and planning, there are always obstacles. Turnover over, menu changes, student preference, substitutions, supply issues, declining enrollment, and many other issues are unforeseen and most of the time out of our control. The one thing we can control is how we adapt to these obstacles. The best approach to these and other issues is communication with all stakeholders. As director you know what you need to do, but don't forget there are others that can assist you. Additionally, take advantage of training offered by all stakeholders. These training sessions will help add to your tool set, allowing RAs to properly and efficiently take full advantage of their commodity assets. ACDA and State agency websites are good places to start for these resources.

Take advantage of midyear food shows with your rep's as well. There are always recipe demos, lots of food tasting lots of information given out as far as price points, timelines- at processors and manufacturers request.

Have a SOP (Standard Operating Procedure) with "due dates" in reference to planning for the next school year. This will also assist the next person, should promotions / turnover occur.

Possibly create a resource website with all the links to webinars and training. Share with all FNS Directors. Possibly offer CEU's for more RA's attending webinars/training.

- RA's Timeline-Best Practice for planning ahead.
- Food Shows-What will be available for the next school year
- Bring in samples for student taste testing
- Review your pounds with Processors
- Plan your next school year menu
- Pounds/Cases Allocation Survey
- Bid out to all
- Bid Awarded
- Review Commodity
- Bid approved by the board

- Communication of bid awarded to distributor, vendor, broker and manufacturer.
- Place first orders for the new school year.

REPORT ANY ADDITIONAL INFORMATION ON THE SUCCESS OR OBSTACLES FOR SUCH POLICIES.

Processors suggested Best Practices

Processors also work to ensure the USDA commodity processed program is beneficial for all stakeholders, as not having sweeps policy would be preferred by all, since this would ideally be an indicator that USDA foods are being utilized in the same SY for which they were allocated.

However, as described above, there are always challenges with several possible factors changing each SY, including COVID-19's ongoing impact.

Processors are very familiar with FD-064, Management of Donated Food Inventories at Processors. This policy states 'USDA foods must be requested and distributed only in quantities that can be consumed without waste.' Most SDAs and Processors infer this to mean within the school year for which the commodity was allocated.

Processors are in constant communication with all stakeholders including USDA, SDAs, RAs/Coop directors, State warehouses / distributors, brokers - if applicable.

- RA communication
 - Receive RA's completed calculator forms, with monthly planners, before the end of the prior school year. Each form includes contact for RA, sales channel, & coop, if applicable.
 - Ongoing communication throughout the SY with RAs whose balances are not within 10% par each month to discuss challenges in utilizing pounds as planned.
 - If after communicating with RAs, utilization within the SY is not feasible, managing school to school transfers is the next step.
 - If RA is part of a Coop, communicating with the Coop director is also crucial.
 - Communicate any supply challenges with alternatives if necessary.
- SDA communication
 - Communicate with SDA on plan/procedure to utilize excess pounds in a state general fund or state warehouse.
 - Discuss implications and consequences of additional competitive brown box items.
 - Justification letter needed with December MPR, if over 6 MOI,
 - School to school transfer requests submitted to SDA for approval.
- USDA communication
 - If over 6 MOI, communicate plan to work with schools in utilizing their pounds.

- Distributor communication
 - Based on calculator forms, confirm items and quantities projected will be stocked. If new product will be stocked, work with distributor to ensure timely set-up of item prior to beginning of the new school year. If the distributor is not going to stock the planned item, work with RA, Coop Coordinator and broker to determine a plan to utilize pounds allocated for that SKU.
 - Work with the distributors and schools to ensure inventory is moving through the system as planned.

Coordinator's Role suggested Best Practices (Co-op & Management Company)

Coordinator requests distributor stock items for RAs to utilize pounds--even during a crisis unless processor will not have items available. Coordinator should require distributor to have system for RAs to track product usage.

Coordinator informs broker of awarded processors and works with processors in communicating product availability, distributor issues, and reports on usage to RAs. Coordinator also assists RAs with product selection and recipes to help with utilization.

Coordinator manages contracts, to assure terms are met by the distributor and processors. Coop coordinator also approves school member district transfers before those requests are submitted to the SDA.

State Agency suggested Best Practices

With every state having their own rules and guidelines for managing their day to day operations there is no magic wand, crystal ball or one size fits all strategy for managing inventory. States with 100+ recipient agencies, where the majority participates in processing of USDA Foods and who utilizes over 20 processors; it's no easy task monitoring inventory balances making sure drawdowns are occurring and in a timely manner.

After surveying states and processors, it didn't take long to realize that a "sweep" policy may not eliminate all excess inventory but it can help with reduction. Also, it would be most beneficial if there were a national policy that every state and processor would follow. Again, with every state operating differently is it possible to come up with a policy that would work for everyone or at least one they want to implement? However, this still doesn't negate the fact that inventory management is an issue and there's an obvious need to rectify this ongoing problem.

So, until then, a few best practices that can assist states with managing inventory:

- Only order enough loads that will be used for the school year. Put into consideration any pounds left in the state bank.
- Order trucks for a later ship date if inventory is close to six months.
- Monitor orders throughout the school year and cancel loads as needed.

- If SDA has a weekly newsletter, use this tool to notify RAs which processors have additional inventory.
- Redistribute pounds to recipient agencies who can use them.
- Utilize tracking websites to monitor inventory.
- Conduct RA training on how to order and utilize pounds.
- Sweep inventory if your state has a policy in place.
- Communication with RAs and manufacturers being made aware of any issues.
- As a last resort, State to State transfers or Processor to Processor transfers.

States / coops should have recurring communication throughout SY to allow RAs to keep on top of utilization (by States, coops, ACDA) that may help RAs utilize their #s in the same SY.

- Beginning SY topic would include set-up (new items set-up at distributor, sales channel is correct, products forecasted are awarded) with utilization goal of 10% by first 4 weeks,
- Mid-year seminar topics could include changes in participation and impact on utilization, product acceptance (possible product change), contact and reason for 100% balance, preparation for next SY.
- Spring seminar topics could include reasons for high balances, review following SY' plan to address, discussion on releasing pounds to schools that can utilize pounds by June 30th.

Sweeps DO NOT eliminate carry over!

Why Action will benefit members (rational): Schools that utilize pounds in year USDA foods purchased, efficiently use all their entitlement dollars. States with little or no carryover maintain appropriate balances & ensure USDA Foods are used as intended. The impact un-utilized balances have on processors surety bond cost.

Suggested Sweeps Best Practices for State Agencies

After every June 30th, State Distributing Agencies (SDAs) will conduct a redistribution of pounds for all RAs participating in USDA Foods for further processing. Through this process, SDAs will redistribute all RA inventories into the State accounts to be used for new school year's allocations.

The primary focus of the Sweeps Policy sub-committee was to gather and analyze data focusing on best practices to offer State DAs that would bring consistency and continuity for all stakeholders.

The subcommittee understands there may be some States that find end of SY sweeps challenging for various reasons. Perhaps a suggested next step may be for those States to have roundtable discussions with RAs in discussing how to increase the utilization of pounds in the same SY allocated and report these challenges back to this sub-committee.