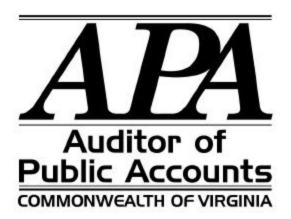
STATE MILK COMMISSION RICHMOND, VIRGINIA

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2001



AUDIT SUMMARY

Our audit of the State Milk Commission for the year ended June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- proper recording and reporting of transactions, in all material respects, in the Commission's accounting records, regarding the Equalization and Producer Loss Recovery Funds;
- no matters involving the internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

April 5, 2002

The Honorable Mark R. Warner Governor of Virginia State Capitol Richmond, Virginia The Honorable Vincent F. Callahan, Jr. Chairman, Joint Legislative Audit and Review Commission General Assembly Building Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **State Milk Commission** for the year ended June 30, 2001. We conducted our audit in accordance with <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and the Commission's records regarding the Equalization and Recovery Loss Funds, review the adequacy of the Commission's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Commission's records. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY BACKGROUND

The State Milk Commission, created in 1934, supervises and regulates the producer price, supply, and sale of milk. The Commission also licenses all milk processors and distributors that sell milk products in the Commonwealth and performs audits of milk distributors. The primary source of funds is from monthly assessments on dairy producers, processors, and distributors. Assessments for fiscal year 2001 totaled \$615,966, based on a rate of \$.035 per 100 pounds of milk and cream processed and distributed. Commission expenses totaled \$653,497, with 85 percent spent on payroll while five percent was for office rent.

The Commission manages a transportation pool (Equalization Fund) to offset additional delivery costs for dairy farmers making milk deliveries to processing plants located in the Tidewater region. During the year, total collections and disbursements for the Equalization Fund were \$19,029 and \$17,535, respectively. The Commission also administers a Producer Loss Recovery Fund to reduce dairy farmers' losses from distributors' bankruptcies. During 2001, total collections and disbursements for the Recovery Fund were \$3,101 and \$3,101, respectively.

STATE MILK COMMISSION Richmond, Virginia

Commission Members

Rodney L. Phillips, Administrator

Edward C. Wilson, Jr., Deputy Administrator

Daniel W. Burch, Consumer

Lorna Daniels, Consumer

Ursula J. Edmonds, Consumer

John Gillam, Processor

Lucy M. Grubb, Consumer

Judith Motley, Producer

James P. Townsend, Producer