

AUDIT SUMMARY

Our audit of the State Milk Commission for the year ended June 30, 1998, 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 structure and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

February 12, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
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, 1998. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives and Findings

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

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 policies and procedures for these internal accounting controls. 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 policies and procedures 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 an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

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

We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control structure elements 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 found no instances of noncompliance that we are required to report under Government Auditing Standards.

This report is intended for the information 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 HIGHLIGHTS

The State Milk Commission, created in 1934, supervises and regulates the producer price, supply, and sale of milk. The Commission has seven members appointed by the Governor and consists of four consumers, two milk producers, and one milk processor-distributor. The Governor also appoints the Administrator as an ex-officio nonvoting consumer member.

The Commission licenses all milk processors and distributors that sell milk products and performs distributors' audits. The Commission also enacts trade practices and establishes monthly producer prices.

The Commission funds its activities from monthly assessments on dairy producers, processors, and distributors. Assessments for the year totaled \$611,361. The Commission spent \$608,941, primarily on the payroll for nine salaried employees and office rent.

The Commission also has a transportation pool (Equalization Fund) to reduce dairy farmers' milk delivery costs to Tidewater regional processing plants. During the year, total collections and disbursements for the Equalization Fund were \$28,609 and \$27,806, respectively. In addition, the Commission administers a Producer Loss Recovery Fund to reduce dairy farmers' losses from distributors' bankruptcies. During the year, total collections and disbursements for the Producer Loss Recovery Fund were \$111,522 and \$110,932, respectively.