



Susan Montee, CPA
Missouri State Auditor

April 2007

AGRICULTURE

State Milk Board

Two Years Ended
June 30, 2006



Office Of
Missouri State Auditor
Susan Montee, CPA

April 2007

The following report is our audit of the Department of Agriculture, State Milk Board.

The Missouri State Milk Board was created in 1972 and was transferred to the Department of Agriculture in accordance with the Omnibus State Reorganization Act of 1974. The State Milk Board consists of twelve members, ten of whom are appointed by the governor. The two remaining members of the board are the director of the Department of Health and Senior Services and the director of the Department of Agriculture, or their designated representatives. An executive secretary serves as the administrative officer of the board, which administers the inspection of milk supplies.

We had no findings on the Department of Agriculture, State Milk Board.

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YELLOW SHEET

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD

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FINANCIAL SECTION

State Auditor's Reports



SUSAN MONTEE, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Matt Blunt, Governor
and
Matt Boatright, Interim Director
Department of Agriculture
and
Terry S. Long, Executive Secretary
State Milk Board
Jefferson City, MO 65102

We have audited the accompanying Comparative Statement of Receipts, Disbursements, and Changes in Cash and Investments of the Milk Inspection Fees Fund; Comparative Statement of Receipts of the General Revenue Fund; and Comparative Statement of Appropriations and Expenditures of the various funds of the Department of Agriculture, State Milk Board as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, these financial statements were prepared using accounting practices prescribed or permitted by Missouri law, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Department of Agriculture, State Milk Board as of and for the years ended June 30, 2006 and 2005, or the changes in its financial position for the years then ended.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the Milk Inspection Fees Fund; the receipts of the General Revenue Fund; and the appropriations and expenditures of the various funds of the Department of Agriculture, State Milk Board as of and for the years ended June 30, 2006 and 2005, on the bases of accounting discussed in Note 1.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 9, 2007, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole, that were prepared on the bases of accounting discussed in Note 1.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the board's management and was not subjected to the auditing procedures applied in the audit of the financial statements referred to above. Accordingly, we express no opinion on the information.



Susan Montee, CPA
State Auditor

March 9, 2007

The following auditors participated in the preparation of this report:

Director of Audits: Kenneth W. Kuster, CPA
Audit Manager: Jeannette Eaves, CPA
In-Charge Auditor: Keri Wright



SUSAN MONTEE, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS

Honorable Matt Blunt, Governor
and
Matt Boatright, Interim Director
Department of Agriculture
and
Terry S. Long, Executive Secretary
State Milk Board
Jefferson City, MO 65102

We have audited the financial statements of the Department of Agriculture, State Milk Board as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated March 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Department of Agriculture, State Milk Board, we considered the board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Department of Agriculture, State Milk Board are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the management of the Department of Agriculture, State Milk Board and other applicable government officials. However, pursuant to Section 29.270, RSMo, this report is a matter of public record and its distribution is not limited.



Susan Montee, CPA
State Auditor

March 9, 2007

Financial Statements

Exhibit A

DEPARTMENT OF AGRICULTURE
 STATE MILK BOARD
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
 CASH AND INVESTMENTS - MILK INSPECTION FEES FUND

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
RECEIPTS:		
Milk inspection fees	\$ <u>1,196,831</u>	<u>1,379,489</u>
DISBURSEMENTS:		
Personal service	236,260	210,088
Employee fringe benefits	98,023	82,182
Cost allocation plan	18,313	18,903
Expense and equipment	108,515	100,273
Inspection contract costs	877,294	641,081
Building lease	1,800	10,928
Total Disbursements	<u>1,340,205</u>	<u>1,063,455</u>
RECEIPTS OVER (UNDER) DISBURSMENTS	(143,374)	316,034
CASH AND INVESTMENTS, JULY 1	<u>751,052</u>	<u>435,018</u>
CASH AND INVESTMENTS, JUNE 30	<u><u>\$ 607,678</u></u>	<u><u>751,052</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF RECEIPTS
GENERAL REVENUE FUND

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
RECEIPTS:		
Other Inspection Fees	\$ <u>14,504</u>	<u>17,545</u>
Total	\$ <u><u>14,504</u></u>	<u><u>17,545</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

DEPARTMENT OF AGRICULTURE
 STATE MILK BOARD
 COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2006			2005		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND						
Personal Service and Expense and Equipment						
for contractual services with local health agencies	\$ 0	0	0	459	0	459
Personal Service	98,603	80,990	17,613	112,080	108,677	3,403
Expense and Equipment	19,597	14,910	4,687	21,362	17,145	4,217
Total General Revenue Fund	<u>118,200</u>	<u>95,900</u>	<u>22,300</u>	<u>133,901</u>	<u>125,822</u>	<u>8,079</u>
MILK INSPECTION FEES FUND						
Personal Service	245,974	234,928	11,046	238,497	210,088	28,409
Expense and Equipment	209,184	103,701	105,483	223,029	100,273	122,756
Personal Service and Expense and Equipment						
for contractual services with local health agencies	984,887	877,294	107,593	1,306,970	641,081	665,889
Payment of real property leases, related services, utilities and systems furniture and structural modification for new FTE - Expense and Equipment	215	0	215	11,586	10,928	658
Missouri Department of Agriculture - Director's Office Personal Service	0	0	0	1,342	0	1,342
Missouri Department of Agriculture - Director's Office Expense and Equipment	0	0	0	989	0	989
Overtime	50	0	50	0	0	0
Missouri Department of Agriculture - IT Consolidation Personal Service	1,342	1,332	10	0	0	0
Missouri Department of Agriculture - IT Consolidation Expense and Equipment	9,343	4,814	4,529	0	0	0
Total Milk Inspection Fees Fund	<u>1,450,995</u>	<u>1,222,069</u>	<u>228,926</u>	<u>1,782,413</u>	<u>962,370</u>	<u>820,043</u>
DAIRY PLANT INSPECTION AND GRADING FUND						
Dairy Plant Inspections	7,341	0	7,341	8,000	0	8,000
Missouri Department of Agriculture - IT Consolidation Expense and Equipment	659	0	659	0	0	0
Total Dairy Plant Inspection and Grading Fund	<u>8,000</u>	<u>0</u>	<u>8,000</u>	<u>8,000</u>	<u>0</u>	<u>8,000</u>
Total All Funds	<u>\$ 1,577,195</u>	<u>1,317,969</u>	<u>259,226</u>	<u>1,924,314</u>	<u>1,088,192</u>	<u>836,122</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Supplementary Data

Schedule

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
STATEMENT OF CHANGES IN GENERAL CAPITAL ASSETS

Type of General Capital Assets	Balance June 30, 2004	Adjustment	Additions	Dispositions	Balance June 30, 2005	Additions	Dispositions	Balance June 30, 2006
GENERAL REVENUE FUND								
Office furniture and equipment	\$ 22,903	4,761	3,659	13,391	17,932	576	9,546	8,962
Automobiles	25,500	0	0	0	25,500	0	14,000	11,500
Total General Revenue Fund	<u>48,403</u>	<u>4,761</u>	<u>3,659</u>	<u>13,391</u>	<u>43,432</u>	<u>576</u>	<u>23,546</u>	<u>20,462</u>
MILK INSPECTION FEES FUND								
Office furniture and equipment	152,540	(17,543)	3,660	1,801	136,856	4,594	16,679	124,771
Automobiles	25,700	14,000	0	0	39,700	8,300	20,500	27,500
Total Milk Inspection Fees Fund	<u>178,240</u>	<u>(3,543)</u>	<u>3,660</u>	<u>1,801</u>	<u>176,556</u>	<u>12,894</u>	<u>37,179</u>	<u>152,271</u>
Total General Capital Assets	\$ <u>226,643</u>	<u>1,218</u>	<u>7,319</u>	<u>15,192</u>	<u>219,988</u>	<u>13,470</u>	<u>60,725</u>	<u>172,733</u>

The accompanying Note to the Supplementary Data is an integral part of this statement.

Notes to the Financial Statements and Supplementary Data

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
NOTES TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying financial statements present only selected data for each fund of the Department of Agriculture, State Milk Board.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the Milk Inspection Fees Fund. Appropriations from this fund are expended by or for the board for restricted purposes.

Receipts are presented in Exhibit B for the state's General Revenue Fund. Receipts include monies the board collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and fund balances or net assets of the related funds but are used only to account for and control the board's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the board and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statement of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, presents amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statement of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting. Expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

However, the General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the 2-year period

are reappropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

The cash basis of accounting and the budgetary basis of accounting differ from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The board administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

Milk Inspection Fees Fund: This fund is authorized by Section 196.947, RSMo, to receive all monies paid to the state for milk inspection. Expenditures, authorized by appropriations, are to be used exclusively for the purpose of defraying the costs of the state milk inspection program, which may include payments to other agencies for services provided related to the program. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund.

Dairy Plant Inspection and Grading Fund: This fund is authorized by Section 196.614, RSMo, to receive all monies paid to the state from the United States Department of Agriculture for contracted manufacturing dairy plant inspection or grading. Expenditures, authorized by appropriations, are to be used exclusively for the purpose of defraying the cost of the contracted manufacturing milk inspection and grading program. Any unexpected balances in this fund are perpetually maintained for the purposes of the fund.

General Revenue Fund: The board receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the board, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a state contribution for each employee who

participates in the deferred compensation plan and has been employed by the state for at least 1 year.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; employee and retiree health care premiums; and the deferred compensation incentive amount.

Employee fringe benefits in the financial statement at Exhibit A are the transfers from the Milk Inspection Fees Fund for costs related to salaries paid from that fund. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statements at Exhibit C.

2. Cash and Investments

The balance of the Milk Inspection Fees Fund is pooled with other state funds and invested by the state treasurer. There was no balance in the Dairy Plant Inspection and Grading Fund at June 30, 2005 and 2006.

3. Reconciliation of Total Disbursements to Appropriated Expenditures

Milk Inspection Fees Fund disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

	Year Ended June 30,	
	2006	2005
DISBURSEMENTS PER EXHIBIT A	\$ 1,340,205	1,063,455
Employee fringe benefits	(98,023)	(82,182)
Cost allocation plan transfer	(18,313)	(18,903)
Building Lease	(1,800)	0
EXPENDITURES PER EXHIBIT C	\$ 1,222,069	962,370

4. Inspection Contract Costs

During the two years ended June 30, 2006, the State Milk Board contracted with the county of St. Louis and the city of Springfield to inspect Grade A milk supplies. This expenditure category represents the cost associated with these contracts paid from the Milk Inspection Fees Fund.

Note to the Supplementary Data:

5. General Capital Assets

General capital assets are recorded at cost in the general capital assets account. General capital assets are depreciated on straight-line basis using a five year useful life classification and a salvage value of zero. Accumulated depreciation on general capital assets at June 30, 2006 and 2005, was as follows:

	Year Ended June 30,	
	2006	2005
Milk Inspection Fees Fund	\$ 125,270	145,617
General Revenue Fund	14,825	35,036
Total	\$ 140,095	180,653

STATISTICAL SECTION

History, Organization, and
Statistical Information

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri State Milk Board was created in 1972 when the General Assembly adopted and the Governor signed into law House Bill No. 1280. In accordance with the Omnibus State Reorganization Act of 1974, the State Milk Board was transferred to the Department of Agriculture under a Type III transfer. Under a Type III transfer, the Director of the Department of Agriculture does not maintain supervision over substantive matters relating to policies and regulative functions of the State Milk Board.

Pursuant to Executive Order No. 82-9, effective August 13, 1982, “. . . All powers, duties, and functions vested in the Division of Animal Health and the Director of the Department of Agriculture with respect to administering and enforcing the provisions of Sections 196.520 through 196.610 RSMo 2000, (relating to The Missouri Manufacturing Milk and Dairy Market Testing Law) . . .” were transferred to the State Milk Board.

The State Milk Board consists of twelve members, ten of whom are appointed by the governor. The two remaining members of the board are the director of the Department of Health and Senior Services and the director of the Department of Agriculture or their designated representatives. An executive secretary serves as the administrative officer of the board, which administers the inspection of milk supplies.

The Fluid Milk Inspection Program is funded from milk inspection fees. To help cover inspection costs, the General Assembly appropriated \$459 from the state's General Revenue Fund during the year ended June 30, 2005. Section 196.945, RSMo, limits milk inspection fees to five cents per one hundred pounds of fluid milk. The inspection fee is set by the board after holding a public hearing giving thirty days public notice. The inspection fee for the two fiscal years ended June 30, 2006, was five cents per one hundred pounds of milk produced in Missouri and four cents and three cents per one hundred pounds of milk produced in other states and imported into Missouri for the years ended June 30, 2005 and 2006, respectively. Imported milk is charged a lesser rate because the originating state inspects its producers.

During the two years ended June 30, 2006, the State Milk Board contracted with the county of St. Louis and the city of Springfield to perform inspections in those areas. The State Milk Board has management responsibility for the Kansas City area. The board's enforcement of statutes and regulations ensures that fluid milk and milk products are uniformly inspected, regulated, and graded throughout the state. The board's operation of the Fluid Milk Inspection Program is funded by the difference between the inspection fee collected and the contract payments to the other governmental units.

The Manufacturing Milk and Dairy Market Testing Law Program is funded by appropriations from the state's General Revenue Fund. The State Milk Board is responsible for the enforcement of laws relating to the sanitation and quality standards of milk used for manufacturing dairy products and to market test all milk at first point of sale. Milk producers, manufacturing plants,

field superintendents, testers, graders, samplers, and milk truck operators are also licensed under this program.

At June 30, 2006, State Milk Board members were as follows:

<u>Name</u>	<u>Organization</u>	<u>Term Expires</u>
Kate Geppert	Holstein Association	September 28, 2006
Ron Boyer	Springfield/Greene County Health Department	September 28, 2007
Robert W. Cary	Prairie Farms Dairy	September 28, 2006
Vacant	St. Louis County Health Department ¹	N/A
Randy Mooney	MFA	September 28, 2007
Barry J. Drucker	St. Charles County Health Department	September 28, 2005 ²
Gale Hackman	Processing Plants	September 28, 2009
Erwin P. Gadd	Consumer-At-Large	April 11, 2006 ³
Dr. Chuck Massengill, DVM	Department of Agriculture	Ex Officio
Dr. Lyn C. Konstant	Department of Health and Senior Services	Ex Officio
William B. Siebenborn	Milk Producers Organization – Farm Bureau	September 28, 2009
Patricia M. Mahoney	St. Louis City Health Department	September 28, 2002 ³

¹ This position has been vacant since November 2004.

² Served until his resignation in October 2006.

³ Continues to serve until a replacement is appointed.

Terry S. Long serves as the Executive Secretary of the board. At June 30, 2006, the State Milk Board had nine employees. An organization chart follows.

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
ORGANIZATION CHART
JUNE 30, 2006

