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Missouri State Auditor

AGRICULTURE

State Milk Board



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YELLOW SHEET

Findings in the audit report of the State Milk Board

Milk Inspection Program

The contracts with the St. Louis County Health Department for the years ended June 30, 2009, 2008 and 2007, required the State Milk Board (SMB) to pay a fee for each dairy farm inspected, based on the number of farms inspected during the previous month. According to SMB personnel, during the 3 years ended June 30, 2009, the St. Louis County Health Department billed the SMB for the average number of active farms during the previous month instead of the actual number of farms inspected. The contracts with the City of Springfield Health Department for the years ended June 30, 2008 and 2007, also required the SMB to pay a fee for each farm inspected, based on the number of dairy farms inspected during the previous month. The City of Springfield Health Department, however, billed the SMB in the same manner as the St. Louis County Health Department. Instead of requiring the City of Springfield Health Department to submit billings in accordance with the contract, the SMB revised the contract wording for the year ended June 30, 2009, to require the SMB to pay a monthly fee based on the total number of active farms during the previous month. During the 3 years ended June 30, 2009, the SMB paid the City of Springfield Health Department approximately \$584,000 and the St. Louis County Health Department approximately \$1,480,000.

Although the SMB was aware the local health departments were not submitting billings in accordance with contracts, the SMB paid the local health departments based on the number of farms reported on the billings. In addition, the SMB does not receive documentation of the inspections performed by the local health departments and does not review records maintained by the health departments, and as a result, does not know how many farms were actually inspected during the billing period.

The contract payments to the City of Springfield and the St. Louis County health departments represent the most significant expenditure outlay for the SMB. Although SMB records indicated a significant cost savings resulted from assuming management responsibility of the Kansas City area effective for fiscal year 1999, the SMB has not performed a cost analysis of the inspection and compliance monitoring services contracted out to the City of Springfield and the St. Louis County Health Departments.

Manufacturing Milk and Dairy Market Testing Law Program

The SMB established license fees for the Manufacturing Milk and Dairy Market Testing Law Program in 1983 and has not adjusted the fees since that time. Fees collected for the program are deposited into the General Revenue (GR) Fund. During the 3 years ended June 30, 2009, the program expended approximately \$362,000 and recovered fees of approximately \$46,000, resulting in a net cost of approximately \$316,000 to the GR Fund.

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Department of Agriculture

State Milk Board

Table of Contents

State Auditor's Report	2
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Management Advisory Report - State Auditor's Findings	
1. Milk Inspection Program.....	4
2. Manufacturing Milk and Dairy Market Testing Law Program	5

Organization and Statistical Information	7
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Appendixes

A	Comparative Statement of Receipts, Disbursements, and Changes in Cash and Investments - Milk Inspection Fees Fund, Years Ended June 30, 2009, 2008, and 2007	9
B	Comparative Statement of Receipts - General Revenue Fund, Years Ended June 30, 2009, 2008, and 2007	10
C	Comparative Statement of Appropriations and Expenditures, Years Ended June 30, 2009, 2008, and 2007	11
D	Statement of Changes in General Capital Assets, Years Ended June 30, 2009, 2008, and 2007	12



SUSAN MONTEE, JD, CPA

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Dr. Jon Hagler, Director
Department of Agriculture
and
Gene Wiseman, Executive Secretary
State Milk Board
Jefferson City, Missouri

We have audited the Department of Agriculture, State Milk Board. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2009, 2008, and 2007. The objectives of our audit were to:

1. Evaluate the board's internal controls over significant management and financial functions.
2. Evaluate the board's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain revenues and expenditures.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the board; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. 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. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the board's management and was not subjected to the procedures applied in our audit of the board.

The accompanying Management Advisory Report presents our findings arising from our audit of the State Milk Board.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Jeannette Eaves, CPA
In-Charge Auditor:	Matthew Schulenberg

Department of Agriculture

State Milk Board

Management Advisory Report - State Auditor's Findings

1. Milk Inspection Program

Payments for inspection and monitoring services were not in compliance with contracts and a cost analysis has not been performed to determine the most cost effective method of providing those services.

The Milk Inspection Fees Fund was established to receive fees collected from milk producers. Section 196.945, RSMo, allows the State Milk Board (SMB) to set fees not exceeding 5 cents per 100 pounds of milk produced. The monies collected are used for inspection and compliance monitoring expenses, including payments to local health departments which contract with the SMB to perform these services. The SMB contracts annually with the City of Springfield and St. Louis County Health Departments to provide milk inspection, regulatory services, and ratings. During the 3 years ended June 30, 2009, the SMB paid the City of Springfield Health Department approximately \$584,000 and the St. Louis County Health Department approximately \$1,480,000.

1.1 Contract Payments

The contracts with the St. Louis County Health Department for the years ended June 30, 2009, 2008 and 2007, required the SMB to pay a fee for each dairy farm inspected, based on the number of farms inspected during the previous month. According to SMB personnel, during the 3 years ended June 30, 2009, the St. Louis County Health Department billed the SMB for the average number of active farms during the previous month instead of the actual number of farms inspected. This billing method was not in compliance with contract terms.

The contracts with the City of Springfield Health Department for the years ended June 30, 2008 and 2007, also required the SMB to pay a fee for each farm inspected, based on the number of dairy farms inspected during the previous month. According to SMB personnel, during the 2 years ended June 30, 2008, the City of Springfield Health Department billed the SMB for the average number of active farms during the previous month. This billing method was not in agreement with the contract terms for these 2 years. However, instead of requiring the City of Springfield Health Department to submit billings in accordance with the contract, the SMB revised the contract wording for the year ended June 30, 2009. The contract for the year ended June 30, 2009 required the SMB to pay a monthly fee based on the total number of active farms during the previous month.

Although the SMB was aware the local health departments were not submitting billings in accordance with contracts, the SMB paid the local health departments based on the number of farms reported on the billings. In addition, the SMB does not receive documentation of the inspections performed by the local health departments and does not review records maintained by the health departments, and as a result, does not know how many farms were actually inspected during the billing period. To ensure the SMB receives fair value for amounts paid to local health departments, the



SMB should ensure the local health departments have actually performed the inspections billed.

1.2 Cost Analysis

The contract payments to the City of Springfield and the St. Louis County health departments represent the most significant expenditure outlay for the SMB. Although SMB records indicated a significant cost savings resulted from assuming management responsibility of the Kansas City area effective for fiscal year 1999, the SMB has not performed a cost analysis of the inspection and compliance monitoring services contracted out to the City of Springfield and the St. Louis County Health Departments.

An analysis of cost data from the contract agencies is important to ensure payments to the health department contractors are appropriate and reasonable and would assist in determining whether a cost savings could be realized if management responsibility of the remaining two contract areas was assumed by the SMB.

Recommendations

1.1 The SMB should establish procedures to ensure that the local health departments are billing the SMB for inspections actually performed and in accordance with the contracts.

1.2 The SMB should prepare a formal cost analysis to determine if cost savings could be realized by assuming management responsibility for inspection and compliance monitoring services of the St. Louis or Springfield areas.

Auditee's Response

The Executive Secretary provided the following responses:

1.1 *We agree and will attempt to establish these procedures.*

1.2 *We will prepare a cost analysis and present it to the board for review.*

2. Manufacturing Milk and Dairy Market Testing Law Program

The SMB established license fees for the Manufacturing Milk and Dairy Market Testing Law Program in 1983 and has not adjusted the fees since that time. Fees collected for the program are deposited into the General Revenue (GR) Fund. During the 3 years ended June 30, 2009, the program expended approximately \$362,000 and recovered fees of approximately \$46,000, resulting in a net cost of approximately \$316,000 to the GR Fund.

2.1 Testing fee

The Manufacturing Milk and Dairy Market Testing Law Program is funded by appropriations from the state's GR Fund. The SMB 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,



Department of Agriculture
State Milk Board
Management Advisory Report - State Auditor's Finding

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

At the request of the Director of the Department of Agriculture, the SMB is in the process of performing an analysis of program fees collected and deposited into the GR Fund. The SMB is comparing the fee to those charged by surrounding states to determine more appropriate fee amounts.

The SMB should periodically perform an analysis of the fees collected for the Manufacturing Milk and Dairy Market Testing Law Program and consider adjusting fees when they do not cover program costs. Fee adjustments could ease the burden on the state's GR Fund for this program.

Recommendations

The SMB should periodically perform an analysis of fees and expenditures of the Manufacturing Milk and Dairy Market Testing Law Program and consider adjusting the fees where possible to better cover the costs of the program.

Auditee's Response

The Executive Secretary provided the following response:

We agree and will be submitting a fee analysis to the State Milk Board and recommend its adoption to cover the cost of the program.

Department of Agriculture

State Milk Board

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, (relating to The Missouri Manufacturing Milk and Dairy Market Testing Law) ..." were transferred to the State Milk Board.

Section 196.941, RSMo, states that the State Milk Board is to consist of 12 members to be nominated by the director of the department of agriculture and appointed by the governor, with the advice and consent of the senate, 4 of whom shall be representatives and active members of the staff of each of four local health jurisdictions including St. Louis County health department; St. Louis City health division; Kansas City health department; and Springfield health department. Four milk producers shall represent dairy producers through a registered milk producer organization or farm organization with no more than one representing any one organization; one member shall represent dairy processors through a recognized processor organization; and one member shall be a consumer at large. The director of the department of health and senior services or a designated representative and the director of the department of agriculture or a designated representative shall serve as members. The term of each board member shall expire September 28 of the fourth year after appointment. 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. Section 196.945, RSMo, limits milk inspection fees to 5 cents per 100 pounds of fluid milk. The inspection fee is set by the board after holding a public hearing giving 30 days public notice. The inspection fee was 5 cents per 100 pounds of milk produced in Missouri until July 1, 2007, when the fee was reduced to 4 1/2 cents. The inspection fee was 3 cents per 100 pounds of milk transported into Missouri until July 1, 2007, when the fee was increased to 4 cents. Imported milk is charged a lesser rate because the originating state inspects its producers.

During the 3 years ended June 30, 2009, 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



Department of Agriculture
State Milk Board
Organization and Statistical Information

responsibility for the Kansas City area. The board's enforcement of statutes and regulations ensures that fluid 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.

Missouri State Milk Board At June 30, 2009, State Milk Board Members were as follows:

Name	Organization	Term Expires
Dr. Chuck Massengill	Department of Agriculture ¹	Ex Officio
Erwin P. Gadd	Consumer-At-Large	September 28, 2010
Gale Hackman	Jefferson City Dairy Processor ²	September 28, 2009
Pat Shannon	Department of Health and Senior Services	Ex Officio
Bernard R. Malone	Kansas City Health Department	September 28, 2010
Randy Mooney	MFA	September 28, 2011
William B. Siebenborn	Dairy Farmers of America ³	September 28, 2009
Robert W. Cary	Prairie Farms Dairy, Inc.	September 28, 2010
Alfred Brandt	Farm Bureau	September 28, 2010
Karen M. Prescott	Springfield City-Greene County Health Department	September 28, 2011
Patricia M. Mahoney	St. Louis City Health Department	September 28, 2010
Vacant	St. Louis County Health Department ⁴	N/A

¹ Served until his resignation August 31, 2009. This position is now filled by Dr. Linda Hickam.

² Greg Helbig filled this position in October of 2009. However, his nomination was pulled in 2010 and this position is now vacant.

³ Continues to serve until a replacement is appointed.

⁴ This position was vacant from November 2004 until it was filled by Thomas "Sigel" Owen in November 2009. However, his nomination was pulled in 2010 and this position is now vacant.

Terry S. Long served as the Executive Secretary of the board until June 30, 2007. Gene Wiseman was appointed Executive Secretary of the board in August 2007. At June 30, 2009, the State Milk Board had eight employees.

A summary of the State Milk Board's financial activity is presented in the following appendixes.

Appendix A

Department of Agriculture
State Milk Board

Comparative Statement of Receipts, Disbursements, and Changes in Cash and Investments
Milk Inspection Fees Fund

	Year Ended June 30,		
	2009	2008	2007
RECEIPTS:			
Milk inspection fees	\$ 1,256,564	1,298,899	1,073,232
Transfers In	0	385	0
Total Receipts	<u>1,256,564</u>	<u>1,299,284</u>	<u>1,073,232</u>
DISBURSEMENTS:			
Personal service	237,555	257,344	246,093
Employee fringe benefits	96,782	103,450	106,454
Cost allocation plan	13,878	17,002	16,813
Expense and equipment	119,698	133,305	161,398
IT consolidation personal service	1,458	1,415	1,377
IT consolidation expense and equipment	3,486	2,111	2,917
Inspection contract costs	680,062	700,241	683,648
Agriculture leasing	6,005	4,854	4,440
Total Disbursements	<u>1,158,924</u>	<u>1,219,722</u>	<u>1,223,140</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	97,640	79,562	(149,908)
CASH AND INVESTMENTS, JULY 1	<u>537,332</u>	<u>457,770</u>	<u>607,678</u>
CASH AND INVESTMENTS, JUNE 30	<u>\$ 634,972</u>	<u>537,332</u>	<u>457,770</u>

Appendix B

Department of Agriculture
State Milk Board
Comparative Statement of Receipts
General Revenue Fund

	Year Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
RECEIPTS:			
Other inspection fees	\$ <u>13,793</u>	<u>14,115</u>	<u>18,006</u>
Total	\$ <u><u>13,793</u></u>	<u><u>14,115</u></u>	<u><u>18,006</u></u>

Appendix C

Department of Agriculture
 State Milk Board
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,								
	2009			2008			2007		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND									
State Milk Board Personal Service	\$ 108,792	105,500	3,292	105,623	102,354	3,269	102,547	94,030	8,517
State Milk Board Expense and Equipment	19,635	16,897	2,738	20,625	20,625	0	24,237	22,235	2,002
Total General Revenue Fund	<u>128,427</u>	<u>122,397</u>	<u>6,030</u>	<u>126,248</u>	<u>122,979</u>	<u>3,269</u>	<u>126,784</u>	<u>116,265</u>	<u>10,519</u>
MILK INSPECTION FEES FUND									
State Milk Board Personal Service	356,872	237,555	119,317	308,540	257,344	51,196	255,865	246,093	9,772
State Milk Board Expense and Equipment	306,985	119,698	187,287	266,824	133,305	133,519	213,867	161,399	52,468
Milk Board Local Health	803,812	680,062	123,750	889,887	700,241	189,646	984,887	683,648	301,239
Agriculture State Owned	6,301	6,004	297	4,854	4,854	0	4,441	4,440	1
IT Consolidation Personal Service	1,481	1,458	23	1,438	1,415	23	1,396	1,377	19
IT Consolidation Expense and Equipment	4,533	3,486	1,047	4,533	2,111	2,422	4,533	2,917	1,616
Total Milk Inspection Fees Fund	<u>1,479,984</u>	<u>1,048,263</u>	<u>431,721</u>	<u>1,476,076</u>	<u>1,099,270</u>	<u>376,806</u>	<u>1,464,989</u>	<u>1,099,874</u>	<u>365,115</u>
Total All Funds	<u>\$ 1,608,411</u>	<u>1,170,660</u>	<u>437,751</u>	<u>1,602,324</u>	<u>1,222,249</u>	<u>380,075</u>	<u>1,591,773</u>	<u>1,216,139</u>	<u>375,634</u>

The lapsed balances include the following withholdings made at the Governor's request:

	Year Ended June 30,		
	2009	2008	2007
General Revenue Fund			
Personal Service	\$ 3,264	3,169	3,076
Expense and Equipment	2,738	0	0
Total General Revenue Fund	<u>\$ 6,002</u>	<u>3,169</u>	<u>3,076</u>

Appendix D

Department of Agriculture
 State Milk Board
 Statement of Changes in General Capital Assets

Milk Inspection Fees Fund	Furniture and Equipment	Vehicles	Total
Balance June 30, 2006	\$ 124,771	27,500	152,271
Adjustments	3,750	8,000	11,750
Additions	1,046	27,400	28,446
Dispositions	(109,954)	(13,900)	(123,854)
Balance June 30, 2007	19,613	49,000	68,613
Additions	0	15,440	15,440
Dispositions	(4,382)	(7,400)	(11,782)
Balance June 30, 2008	15,231	57,040	72,271
Additions	587	16,683	17,270
Dispositions	0	(5,900)	(5,900)
Balance June 30, 2009	\$ 15,818	67,823	83,641

General Revenue Fund	Furniture and Equipment	Vehicles	Total
Balance June 30, 2006	\$ 8,962	11,500	20,462
Adjustments	(2,466)	0	(2,466)
Additions	0	0	0
Dispositions	(1,929)	(11,500)	(13,429)
Balance June 30, 2007	4,567	0	4,567
Additions	0	0	0
Dispositions	(3,660)	0	(3,660)
Balance June 30, 2008	907	0	907
Additions	587	0	587
Dispositions	0	0	0
Balance June 30, 2009	\$ 1,494	0	1,494