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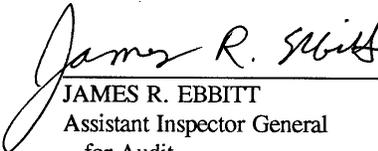
**Audit Guide**

**AGRICULTURAL MARKETING SERVICE**

**Federal Milk Marketing Order Program**

This guide is provided for use of nonfederal auditors. Primary distribution to intended users will be by AMS. A small supply is being furnished to OIG Manual holders for incorporation into their directive systems and to meet requests for copies of the guides.

MATERIAL SUPERSEDED: Audit guide No. 01035, dated May 1989. Remove and destroy.

  
JAMES R. EBBITT  
Assistant Inspector General  
for Audit

Date  
February 29, 2000

## PREFACE

This audit guide has been revised to incorporate changes in the Federal Milk Marketing Order Program Regulations at 7CFR part 900 and 1000, and audit standards and procedures prescribed by the Office of Inspector General, USDA. This revised guide was prepared with participation of representatives of the Agricultural Marketing Service, the Office of Inspector General, independent public accountants and the AICPA.

This guide is issued to assist non-federal audit personnel in conducting audits of Federal Milk Marketing Orders. The Market Administrators are appointed by the Secretary of Agriculture. The overall administration of the Milk Marketing Order Program is the responsibility of the Deputy Administrator, Dairy Programs, Agricultural Marketing Service (AMS), United States Department of Agriculture (USDA).

The guidance contained herein does not lessen the need for a knowledge of the provisions of the applicable Milk Marketing Order(s) or pertinent laws, regulations, policies and procedures including Market Administrator (MA) Instructions issued by the AMS Dairy Programs Headquarters Office in Washington, District of Columbia, herein referred to as AMS Dairy Programs. These laws, regulations, and directives must be understood before operations can be evaluated. Auditors are expected to use initiatives and be resourceful in developing and using new and effective audit approaches in evaluating operations.

Audit steps set out in this guide may be expanded or reduced based on the auditor's professional judgment. The considerations and conclusions reached in exercising such judgment should be documented in the working papers.

Comments and suggestions for improvement of this guide are encouraged.

Federal Milk Marketing Order Program

## AUDIT GUIDE

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

FEDERAL MILK MARKETING ORDER PROGRAM

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## SECTION 1. PURPOSE

- 1.1. PURPOSE OF GUIDE. This guide is issued to assist external audit personnel in conducting audits of Federal Milk Market Administrators and their administration of Federal Milk Marketing Orders. The Market Administrators are appointed by the Secretary of Agriculture. The overall administration of the Milk Marketing Order Program is the responsibility of the Deputy Administrator, Dairy Programs, Agricultural Marketing Service (AMS), United States Department of Agriculture (USDA). This guide, however, is not directed toward a comprehensive appraisal of the overall administration of the program.

The guidance contained herein does not lessen the need for a knowledge of the provisions of the applicable Milk Marketing Order(s) or pertinent laws, regulations, policies and procedures including Market Administrator (MA) Instructions issued by the AMS Dairy Programs Headquarters Office in Washington, District of Columbia, herein referred to as AMS Dairy Programs. These laws, regulations, and directives must be understood before operations can be evaluated. The external auditor is expected to use initiative and be resourceful in developing and using new and effective audit approaches in evaluating operations.

Audit steps set out in this guide may be expanded or reduced based on the auditor's professional judgment. The considerations and conclusions reached in exercising such judgment should be documented in the working papers. Auditors using this guide are expected and encouraged to submit suggestions for its improvement.

## SECTION 2. APPLICABILITY

- 2.1. APPLICABILITY OF THIS GUIDE. This guide will be used by AMS Dairy Programs to obtain audits of Market Administrators for each annual period. Several years may be covered by the same audit to attain cost efficiency.

## SECTION 3. BACKGROUND

- 3.1. BACKGROUND. The primary objective of the Milk Marketing Order Program is to provide a means to achieve and maintain orderly marketing conditions for milk producers. The unique characteristics of milk contribute to chaotic marketing conditions and bargaining difficulties for producers in the absence of regulation.

Milk is a bulky, perishable commodity that must be moved promptly to market. Because milk is perishable and is continually produced every day of the year, producers must continue shipping milk to market, even if market prices are less than satisfactory. In addition, the production of milk varies widely with the seasons; whereas, the demand for milk varies from day to day. Because of its

perishable nature, fluid milk cannot be stored to balance the supply. Consequently, the industry produces regular and seasonal oversupplies to assure there will be enough milk at all times for the day-to-day needs of consumers.

Milk in excess of that needed for use in fluid form is manufactured into other dairy products. Milk used for manufactured products returns a lower price to producers, however, than milk used for fluid purposes. Producers naturally want to sell a fair share of their milk for higher valued fluid use. In the absence of regulation, they would often have to make undue price concessions to share in a fluid market. Before the stabilizing influence of a pricing mechanism that allowed producers to equitably share returns from the fluid market, most producers' incomes became so erratic, uncertain, and depressed that significant disruption of milk supplies for the fluid market resulted. There were chaotic conditions for producers and shortages of fluid milk for processors and consumers.

The Milk Marketing Order Program was authorized to assure dairy farmers reasonable minimum prices for their milk throughout the year and to assure consumers of an adequate supply of milk throughout the year. The Agricultural Marketing Agreement Act of 1937 and its predecessors, the Agricultural Adjustment Acts of 1935 and 1933, insofar as they relate to milk, authorize the Secretary of Agriculture to issue Federal milk marketing orders. Each order covers a specific geographical area, known as a marketing area. The program is somewhat unique in the following respect. The Secretary of Agriculture proposes an order for a marketing area and the dairy farmers whose milk would be subject to pricing by the order vote to approve it, while milk handlers who process, package, and distribute or ship milk products are the entities regulated by the order, not the dairy farmers.

Although the initial steps in proposing an order are usually taken by organized groups (cooperative associations) representing dairy farmers (milk producers), the terms of the order are developed typically through public hearings, including participation by producers, handlers and consumers. At such hearings, information is presented and proposals are made regarding the need for an order and what its provisions should include. The Federal Government's responsibilities are to evaluate the various proposals, to resolve any differences in the public interest, and to administer and enforce the orders after they are put into effect.

Each order sets minimum prices that handlers must pay for milk purchased from producers or cooperative associations of producers. In developing the terms of an order, consideration is given to the particular requirements of individual markets

because each market has unique characteristics that affect both supply and sales conditions. Nevertheless, each order includes the essentials of a classified price plan; a system of minimum prices; and provisions for administering the order.

A classified price plan divides milk into different classes according to use. Milk processed, packaged, and distributed for fluid consumption is placed in Class I, normally the highest priced class. Milk used to produce butter, cheese, evaporated milk, yogurt, ice cream, and other manufactured products is placed in normally lower priced classes.

The orders prescribe methods for calculating class prices, including differentials between classes and adjustments for locations of plants where milk is received.

A minimum price system is established for classes of utilization. Some orders use a traditional skim milk and butterfat pricing system with a basic blended or uniform price. Other orders use a component pricing system that may price protein and other solids in addition to butterfat and adjust for somatic cell count, a measure of the quality of milk.

The order is administered by a Market Administrator, who is an agent of the Secretary of Agriculture. The Market Administrator is responsible for the performance of all duties necessary to administer the terms and provisions of the order. Among these duties are to prescribe reports required of each handler and to verify such reports and payments required by the order. Such verification of the quantities and classification of milk products through laboratory analysis and by examination of records and facilities of milk handlers are to ascertain the correctness of reports and obligations under the order, including payments to producers.

The Market Administrator employs a staff to assist in administering the order. The expense of maintaining such a staff is incurred by an administrative fund and generally a marketing service fund, as prescribed in each order. The expense of administration is prorated among handlers operating in the market based on the quantity of milk they receive from producers. The marketing service fund covers the expense of providing market information and verifying weights, sampling, and testing of milk received from producers who are not members of qualified cooperatives that provide such services to their members. The cost of these services is prorated among such producers based on the quantities of milk they deliver to handlers. The administrative fund and marketing service fund are administered jointly and on a combined basis (for cost-effective operations) for all orders administered by the same Market Administrator.

A separate producer settlement fund is maintained for each order that provides for marketwide pooling. The producer settlement fund and related pricing and pooling provisions result in a basic blend price, uniform price, weighted average differential or producer price differential, as applicable, derived from a monthly utilization value of milk for all handlers in a marketwide pool. Some handlers use mostly Class I milk while other handlers may use a larger proportion of their receipts for manufacturing purposes. This results in wide variation among handlers in the average utilization value of their milk. Under a marketwide pool, each handler is required to pay at least the basic blend, uniform or component prices to all producers for milk received from their farms. The difference between the value of milk at the basic blend, uniform or component prices that the handler pays producers and the handler's utilization value of the milk is paid to or from the producer settlement fund. Handlers with higher than the marketwide average utilization value pay the difference into the producer settlement fund. Handlers with lower than the marketwide average utilization value receive the difference in payments from the producer settlement fund. This process often is called equalization. Payments to producers and equalization payments are adjusted for location differentials that generally reflect lower values for milk produced farther from centers of consumption. Some orders also provide for transportation credits to defray some costs of hauling milk from areas of surplus production to areas of deficit production for use in fluid consumption.

Market Administrators maintain funds outside the U.S. Department of Treasury, do their own disbursing and maintain their own accounting systems. Such systems are regarded as noncentral accounting, from a Departmental perspective, since the accounting and disbursing is not done through the National Finance Center.

AMS Dairy Programs provides fiscal and administrative oversight of the operations of the offices of the Market Administrators. The Deputy Administrator, Dairy Programs, authorizes the annual budgets of Market Administrators, approves the rates of administrative and marketing service assessments and any waivers of such assessments, and approves any significant write-offs of uncollectible accounts. The Deputy Administrator or Associate Deputy Administrator approves significant acquisitions of capital assets and some types of travel, training, meetings, and projects. Actions to enforce the provisions of the marketing orders and other legal matters often are coordinated through Dairy Programs, Washington, D.C., and may involve USDA's Office of General Counsel. AMS Dairy Programs consolidates financial statements of the Market Administrators on a quarterly basis and monitors compliance with certain aspects of financial reporting and other activities.

- 3.2. PROGRAM AUTHORITY. The Federal Milk Market Order Program was established pursuant to the Agricultural Marketing Agreement Act of 1937, (48 Stat. 31 as amended, 7U.S.C. 601-674) and its predecessors, the Agricultural Adjustment Acts of 1935 and 1933.
- 3.3. PROGRAM DEFINITIONS. Since marketing orders differ somewhat depending on local and regional conditions, each order contains specific provisions that take such conditions into account. Both general provisions of milk marketing orders and provisions specific to each marketing order are contained and published in the Code of Federal Regulations, Chapter 7, Part 1000, et seq. In general, definitions contained in the orders are similar in nature. (More descriptive explanations of certain terms are included in AMS' Marketing Bulletin 27, "The Federal Milk Marketing Order Program.")
- 3.4. PROGRAM REGULATIONS AND INSTRUCTIONS. Rules of Practice and Procedure for development and issuing a Milk Marketing Order are included in the Code of Federal Regulations, Chapter 7, Part 900.

Federal milk orders are legal instruments and as such are published individually in the Code of Federal Regulations. Each order includes the specific terms of the order and prescribes the powers and duties of the Market Administrator.

AMS Dairy Programs has final authority under delegation to take all necessary or appropriate action in the administration of milk marketing orders. The Deputy Administrator, Dairy Programs, has issued an instruction manual, MA Instructions, Series 100, 200 and 300, covering various aspects of the administration of milk orders. Each Market Administrator is responsible for carrying out the terms of a specific order. In general, the Market Administrator has the power to establish rules and regulations to carry out the terms and provisions of the order that include, among other things, receiving, investigating, and reporting to the Secretary of Agriculture complaints of any violations of the terms and provisions of the order.

#### SECTION 4. AUDIT OBJECTIVES

- 4.1. AUDIT OBJECTIVES. The broad objectives of the audit are to provide reasonable assurance about whether the financial statements of a Market Administrator present fairly the financial position, results of operations, and changes in financial position in conformity with the governmental fund accounting basis used for such entity; and to determine whether the Market Administrator is managing Milk Marketing Orders efficiently and effectively in accordance with applicable directives, laws and regulations, including the provisions of the marketing orders. To achieve these objectives the external auditors will review, examine and analyze operations, including but not limited to the following:

- a. Evaluate internal controls, including controls over financial and property accountability.
- b. Test the reliability and propriety of accounting transactions and supporting fiscal and administrative records and reports.
- c. Review administrative procedures and operations for efficient and effective accomplishment of the objectives of the applicable market order. (See Government Auditing Standards (Yellow Book) 1994 Revision, as amended, Chapter 2, Paragraphs 2.6 and 2.7, and Chapter 6, Paragraphs 6.39 through 6.45.)
- d. Test compliance with applicable Market Administrator (MA) instructions and provisions of the marketing order(s), including pricing and pooling functions.
- e. Review and evaluate the adequacy of procedures used by the Market Administrator in examinations of reports submitted by handlers, performed to ascertain compliance with the terms and provisions of marketing orders, including the correctness of obligations and payments.

#### SECTION 5. AUDIT APPROACH AND SCOPE

- 5.1. LOCATIONS. The field work will be performed at an office of each Market Administrator where financial records and other documents needed for the audit are maintained. A Market Administrator may jointly administer more than one order. In this case, a single administrative fund and a single marketing service fund operate jointly to provide the services required for the administration of all such orders. However, a separate producer settlement fund always is maintained for each order to provide for pooling specific to the marketing area.
- 5.2. COVERAGE. An audit of a Market Administrator is designed to give comprehensive coverage of the administration of the order(s) to provide maximum assurance for the Secretary as to the proper handling of the funds involved. In those cases where two or more orders are administered by the same Market Administrator, audit coverage includes all Milk Marketing Orders administered.

To assure compliance with the terms and provisions of each Milk Marketing Order and to ensure the integrity of producer settlement fund transactions and balances, including payments and obligations, and to ensure that administrative assessments and marketing service deductions are based on correct quantities of producer milk receipts, it is the Market Administrator's responsibility to verify the quantities and classification of milk products and other information reported by handlers as well as the payments required by the order by examining the handlers' records and milk

handling facilities. There is no requirement for the independent external auditor to provide additional audit coverage at the handlers' plant locations.

The independent external auditor will conduct a review and evaluation of the audit workpapers prepared by the Market Administrator auditors to determine the adequacy of documentation, audit planning, procedures and review, including adherence to applicable standards and guidelines. Each Market Administrator has developed internal guidelines containing policies and procedures uniquely tailored to the provisions of the order(s) administered. Such guidelines should be considered in reviewing each Market Administrator's audit procedures and evaluating the achievement of audit objectives.

## SECTION 6. AUDIT PLAN

- 6.1. TIMING. Each Market Administrator's financial statements shall be audited for each year. Audits of Market Administrators are typically performed on a rotational basis with a multiple year cycle for reasons of cost efficiency. The timing of audit engagements, including commencement of the field work, will be arranged with the Chief, Order Operations Branch, Dairy Programs, Agricultural Marketing Service, who serves as the Contracting Officer's Representative.

Each Market Administrator publicly releases financial statements for each calendar year by the following March 1, in compliance with MA Instruction No. 111, "Public Release of Information" and MA Instruction No. 208, "Financial Statements."

- 6.2. DOCUMENTATION. Audit planning should be documented in compliance with Government Auditing Standards (Yellow Book) 1994 Revision, as amended, and Statements on Auditing Standards No. 22, "Planning and Supervision;" No. 47, "Audit Risk and Materiality in Conducting and Audit," as amended by No. 82, "Consideration of Fraud in a Financial Statement Audit;" No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit," as amended by No. 78, "Consideration of Internal Control in a Financial Statement Audit; and No. 74, "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance;" including:
- a. Audit follow-up.
  - b. Adequate consideration of audit requirements for Market Administrators.
  - c. Adequate consideration of the internal control environment.
  - d. Adequate consideration of the materiality thresholds for test work.

e. Appropriate legal and regulatory citations.

6.3. PRE-AUDIT PREPARATION. Pre-audit preparation should be performed to the extent permitted by the availability of records. Preparation work should include:

- a. Review of prior audit report and all subsequent correspondence regarding such report. (AMS Dairy Programs sends a copy of the prior audit report and subsequent correspondence to the auditor.)
- b. Perusal of MA Instructions Series 100, 200 and 300. (See section 7.1(d).)
- c. Perusal of the terms and provisions of the milk marketing order(s) under audit. (Printings of the milk marketing order(s) may be obtained from the auditee.)
- d. Review of proposed and approved budgets, as well as any revisions, waivers of assessment, changes in rates of assessment, requests and approvals to purchase fixed assets, and any other budget correspondence between the Market Administrator and AMS Dairy Programs for each year under audit. (AMS Dairy Programs sends copies of budget correspondence to the auditor.)
- e. Review the income and expense statement and the balance sheet for the administrative fund and the marketing service fund for each year under audit. (AMS Dairy Programs sends a copy each financial statement to the auditor.)
- f. Review statements or reports of collateral held by the Federal Reserve Bank to secure funds on deposit in pledging financial institutions during the audit period. (AMS Dairy Programs sends copies of such statements or reports of collateral holdings to the auditor.)
- g. Write a standard account confirmation form and cover letter for the Market Administrator to use when preparing account confirmation forms and cover letters to banks and handlers. (The auditor sends the standard account confirmation form and cover letter to the Market Administrator. The auditor later checks the account information prepared by the Market Administrator and mails or authorizes release of the confirmations when field work starts.)

6.4. STAFFING. The external audit organization should meet the staff qualifications and continuing education requirements set forth in the Government Auditing Standards (Yellow Book) 1994 Revision, as amended. Under a contract for audit, the audit work must be conducted or supervised by a licensed certified public accountant, so that a professional opinion may be rendered as to the fairness of presentation of the financial statements. Personnel to be used in performance of the contract must be selected from the approved personnel specified in the contract or in subsequent personnel authorization letters issued by the Contracting

Officer. The size of the Market Administrator's operations and the number of orders administered should be considered in assigning staff personnel.

- 6.5. REPORTING. Audit reports shall be prepared in accordance with (1) generally accepted auditing standards and (2) Government Auditing Standards (Yellow Book) 1994 Revision, as amended, promulgated by the Comptroller General of the United States.

One audit report will be issued covering all Milk Marketing Orders audited under the administration of a specific Milk Market Administrator. The audit report shall be issued to the Market Administrator and to AMS Dairy Programs.

Where one report covers the operations of multiple orders, the findings shall identify the specific marketing order in which a transaction such as an improper payment from a producer settlement fund or an administrative deficiency is applicable specifically to that order, except when a finding relates to the joint administration of all of the orders under audit in a way that makes its relation to a specific order indistinguishable or that renders specific identification irrelevant.

## SECTION 7. AUDIT STEPS

- 7.1. PRELIMINARY.

- a. Background. This section of the audit guide enables the external auditor to gain an understanding of the Milk Marketing Order Program and to develop an audit plan. This section includes: notification of audit; review of MA Instruction Series 100, 200 and 300; review of provisions of the milk marketing order(s) under audit including any amendments; and review of the prior audit report.

The preliminary work should be performed by the auditors prior to the entrance conference to the extent permitted by the availability of information. Otherwise, this work should be done within the first few days of fieldwork.

- b. Objectives. The objectives of this section of the guide are to:

- (1) Ensure that auditee officials are notified of the impending audit.
- (2) Ascertain whether the auditee maintains a current, complete, and numerically ordered set of MA Instructions and incorporated directives.
- (3) Obtain a general understanding of the Milk Marketing Order Program; and

(4) Follow-up on actions taken in response to the prior audit report.

c. Criteria.

MA Instruction Series 100, 200, and 300 and check list for MA Instruction Series 100, 200, and 300.

d. Audit Steps.

W/P Ref. Auditor

- (1) Send audit notification letter to auditee at least two weeks prior to the start of fieldwork, if practical.
- (2) Obtain a copy of MA Instruction Series 100, 200, and 300, from AMS Dairy Programs or designated Market Administrator office, and acquire a general familiarity with the contents. Peruse the MA Instructions listed under criteria in each section of the Guide below, paying particular attention to MA Instruction Nos. 109, 201, 207, 208, and 215, that relate specifically to accounts receivable, cash deposits and investments, budgets, financial statements, and property accountability, respectively.
- (3) Obtain the latest MA Instruction check list for Series 100, 200, and 300.
- (4) Review the auditee's set of MA Instruction Series 100, 200, and 300, to ascertain whether:
  - (a) The instructions are properly filed by numerical series in binders with any amendments and related memoranda.
  - (b) The set of instructions is complete and current.
- (5) Obtain and review the chart of accounts. (See MA Instruction No. 207.)
- (6) Obtain and review the milk marketing order(s) under audit, including any amendments, to become

familiar with the provisions of the order(s). Printings of the milk marketing order may be obtained from the auditee.

- (7) Obtain copies of all annual financial statements since the last audit report. Obtain copies of quarterly financial statements issued subsequent to the most recent annual financial statements if an interim audit is being performed or if it is necessary to determine whether errors in accounting and reporting methods during the audit period were corrected subsequent to the most recent annual financial statements under audit.
- (8) Obtain and review the prior audit report. (AMS Dairy Programs sends a copy of the prior audit report to the current auditor.) Schedule the findings and ascertain whether:
  - (a) The auditee's response resolved the conditions reported.
  - (b) The indicated action was actually taken and is still in effect.
  - (c) The recommendation should be repeated in the current audit report; and/or
  - (d) An adjustment in the audit coverage should be recommended in relation to its application to prior audit report findings or recommendations.

7.2.

GENERAL.

- a. Background. This section of the audit guide pertains to administrative procedures and operations not specifically related to testing of balances and examination of financial statements and to producer settlement fund accounting and operations. This section includes: entrance conference, internal controls, reporting requirements, and budgeting requirements.

Conduct the entrance conference with key officials. The auditor can obtain valuable insight from the officials responsible for supervising or directing an activity. The entrance conference should begin with a background statement explaining the scope and purpose of the audit.

Government Auditing Standards (Yellow Book) 1994 Revision, as amended, require that auditors “obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed.” They also require that a review be made of compliance with applicable laws and regulations. These standards make the auditor responsible for determining how much reliance can be placed on the audited entity's internal accounting and management controls designed to provide reasonable assurance concerning the safeguarding of assets and records and the reliability of accounting and administrative information, to encourage adherence to prescribed policies, and to ensure compliance with applicable laws and regulations. In addition to the steps outlined in this audit guide, the auditor should perform any other procedures necessary to adhere to these standards and to Statements on Auditing Standards No. 55, “Consideration of the Internal Control Structure in a Financial Statement Audit,” as amended by No. 78, “Consideration of Internal Control in a Financial Statement Audit,” and No. 74, “Compliance Auditing Considerations in Audits of Government Entities and Recipients of Government Financial Assistance.”

Each Market Administrator is required to submit several reports and announcements to AMS Dairy Programs. MA Instruction No. 105 provides for the preparation and submission of the report of Semiannual Status of Audits and Audit Review. MA Instruction No. 109 prescribes reporting of uncollectible accounts receivable and associated collection actions. MA Instruction No. 110 provides for the preparation and submission of various market information reports. MA Instruction No. 201 provides for the preparation and submission of the monthly Report of Securities Held as well as forms, statements and correspondence regarding collateral held by the Federal Reserve Bank as security for deposits maintained in financial institutions in excess of Federal Deposit Insurance coverage. MA Instruction No. 208 and No. 111 provide for the preparation and public release of the financial statements. MA Instruction No. 207 provides that, not later than November 15 of each year, each Market Administrator shall prepare and submit to AMS Dairy Programs the prescribed estimates of income and expenditures for the following calendar year. MA Instruction No. 304 provides for the preparation and submission of the Monthly Report of Federal Civilian Employment.

Additional background information is included in each subsequent part and, where needed, subpart of the guide. In addition, this and each subsequent part

or subpart of the guide identify the objectives, criteria, and audit steps needed to complete the parts. Audit steps in this section may be performed in conjunction with procedures in related sections of the guide and do not need to be completed in any particular sequence.

b. Objectives. The objectives of this section of the guide are:

- (1) To advise auditee officials of the purpose and scope of the audit.
- (2) To determine whether the system of internal controls, including administrative and accounting controls and controls over electronic data processing, is adequate to safeguard assets and to assure the integrity of financial information, reports and records.
- (3) To determine if the Market Administrator is in compliance with MA Instructions regarding budgeting and reporting requirements.
- (4) To determine whether controls over compliance with applicable laws and regulations include policies and procedures implemented by management that reasonably ensure that the use of resources is consistent with such laws and regulations.
- (5) To detect with reasonable assurance any irregularities, illegal acts, and other noncompliance.
- (6) To determine whether any handler or association has filed a petition pursuant to subsection (15)(A) of Section 608c, Agricultural Marketing Agreement Act of 1937.

c. Criteria.

MA Instruction No. 105 - Report of Audits of Handler Records

MA Instruction No. 109 - Uncollectible Accounts Receivable

MA Instruction No. 110 - Market Information Reports

MA Instruction No. 111 - Public Release of Information

MA Instruction No. 201 - Deposits and Investments of Federal Program Funds

MA Instruction No. 204 - Travel Authorization and Expense Allowances

MA Instruction No. 207 - Annual Budgets

MA Instruction No. 208 - Financial Statements

MA Instruction No. 215 - Property Accountability

MA Instruction No. 304 - Monthly Report of Federal Civilian Employment, SF113-A.

d. Audit Steps.

W/P Ref. Auditor

(1) Conduct the entrance conference. At the entrance conference:

- (a) Have the individuals in attendance complete a sign-in sheet.
- (b) Explain the scope of the audit, audit objectives, estimated period of fieldwork, audit process and resolution of findings, and any other appropriate items to the auditee.
- (c) Arrange for adequate workspace.
- (d) Obtain a copy of the organizational chart and request that you be introduced to any key personnel with whom you will need to work that are not in attendance at the entrance conference.

(2) Review and evaluate internal controls, including the plan of organization and all methods and procedures used to safeguard assets, check the reliability of financial information, promote operational efficiency, and encourage adherence to prescribed managerial policies.

- (a) Use the items listed in the attached internal control questionnaire to aid the review and evaluation of internal controls.
- (b) Perform other applicable audit steps from sections 7 and 8 of the audit guide in conjunction with the review and evaluation of internal controls where appropriate.
- (c) Perform all additional audit steps needed to satisfy the fieldwork standard for review and evaluation of internal controls.

(3) Analytically review account balances and investigate significant fluctuations from one year to the next .

- (4) Perform all procedures designed to provide reasonable assurance of detecting possible irregularities, illegal acts, and other noncompliance.
- (5) Determine whether the reports specified within this paragraph are prepared in accordance with applicable MA Instructions:

- (a) MA Instruction No. 105:

Semiannual Status of Audits and Audit Review  
(due January 20 and July 20)

Review any “audit count” or other supporting schedule prepared by the Market Administrator’s audit manager.

Check the reported numbers of handler audits not completed and those completed but not reviewed and processed (as of the date shown in the heading of the report) by comparing dates of completion of field work and processing (in the handler compliance audit workpapers) with the date shown in the heading of the report. (Sampling may be done from the universe of completed audits shown on the “audit count” or other supporting schedule, subtracting completed audits from total audits to obtain audits not yet completed. However, the independent external auditor determines the appropriate method to test the reasonableness of the numbers reported.)

- (b) MA Instruction No. 110:

Price and Pool Statistics Summary (due the 20<sup>th</sup> of each month)

Product Report (due the 29th of each month)

Monthly Announcements (due as prescribed)

Annual Report (due May 15)

Weekly Report (due each Friday)

(c) MA Instruction Nos. 111 and 208:

Published Financial Statements (annual) (due March 1)

Interim Financial Statements (quarterly) (due January 30, April 30, July 30, and October 20)

(d) MA Instruction No. 304:

Monthly Report of Federal Civilian Employment (Form MA 113-A) (due on or before the last day of the last pay period included in the report)

(6) MA Instruction No. 207 relates to the preparation and submission of an annual financial budget (including three exhibits that must be submitted on an electronic worksheet) prior to the beginning of each calendar year. Determine:

(a) Whether the budget was approved by the Deputy Administrator, Dairy Programs.

(b) Whether revisions (if any) were made and approved in accordance with MA Instruction No. 207.

(7) MA Instruction No. 207 requires that the budget submission include a budget transmittal memorandum to the Deputy Administrator, Dairy Programs. This memorandum should contain sufficient information to enable the Deputy Administrator, Dairy Programs, to properly evaluate projected income and expenses. Determine if the memorandum contains:

(a) An explanation if the budgeted total group authorization (for each year under audit) exceeds the budgeted total group authorization of the preceding year.

- (b) An explanation for each category of budgeted individual authorization (for each year under audit) that exceeds the corresponding budgeted individual authorization of the preceding year.
  - (c) An explanation for the planned purchase or lease of individual items of equipment (or other fixed assets) costing \$2,000 or more.
  - (d) An explanation for the planned purchase or lease of computer hardware or software costing \$2,000 or more.
  - (e) An explanation if the proposed operating reserve differs by more than 20 percent from the recommended level, calculated as shown in MA Instruction No. 207, Exhibit A-3.
- (8) Prepare a schedule of budget versus actual expenses showing variances for each year for inclusion in the audit report. Include group authorization, individual authorizations, fund authorizations and total approved budget.
- (a) Ascertain whether the actual total expenses exceed the total approved budget. If they do, ascertain the cause and determine whether a recommendation concerning budget compliance is warranted.
  - (b) Ascertain whether the actual expenses exceed the corresponding fund, individual, or group authorization amount shown in the approved budget or subsequent approved budget revision. (If there were budget revisions, the most recent revised budget amounts should be used for this comparison.) If actual expenses do exceed authorized amounts, ascertain the cause and determine whether a recommendation concerning budget compliance is warranted.

- (9) Determine if any handler or association filed a petition pursuant to subsection (15)(A) of Section 608C, Agricultural Marketing Agreement Act of 1937.
  - (a) Ascertain whether the petition contained an affidavit that it was filed in good faith and not for the purpose of delaying payment.
  - (b) Ascertain whether the Administrator, Agricultural Marketing Service, took prompt and judicious action regarding the petition. (Document the action taken.)

7.3. ASSETS.

- a. Background. This section of the audit guide pertains to the fiscal accountability for assets in the Administrative, Marketing Service, and Producer Settlement Funds and Transportation Credit Balancing Fund, if any, and any other fund maintained by the Market Administrator. This section is divided into four subparts: Cash and Investments; Receivables; Prepaid Expenses, Deposits and Miscellaneous; and Fixed Assets.

7.3.1. CASH AND INVESTMENTS.

- a. Background. Market Administrators maintain accounts at financial institutions where funds are protected by Federal Deposit Insurance. Department of the Treasury designates such financial institutions as “Depositaries and Financial Agents of the Government.” Deposits in excess of Federal Deposit Insurance must be secured by collateral pledged by the financial institution and held in an account at the Federal Reserve Bank, in accordance with 31 CFR Part 202. Requirements covering investments, deposits and collateral security are contained in Agricultural Marketing Service Directive 443.1, “Investment of Public Funds,” and MA Instruction No. 201, “Deposits and Investments of Federal Program Funds.” The Market Administrators may deposit or invest order funds in interest bearing checking, negotiable order of withdrawal, or savings accounts, certificates of deposit, Treasury Bills or Treasury Notes (within one year of maturity), in accordance with the preceding directives.
- b. Objectives. The objectives of this section of the guide are to ascertain whether:

- (1) Cash and investments are correctly classified, recorded, posted, summarized and reported.
- (2) Transactions involving cash and investments are substantiated by supporting documents and explanations when appropriate.
- (3) Bank accounts and investments are maintained in the name of the agency.
- (4) Proper cut-offs for period receipts and disbursements are made.
- (5) Bank account statements are properly reconciled to ledger balances.
- (6) Legal requirements were adhered to:
  - (a) Cash was deposited only in designated depositories.
  - (b) Collateral, where required, was sufficient to secure funds on deposit at all times during the audit period.
- (7) Interest accrued and/or received on deposit accounts and investments was properly allocated and recorded in accordance with MA Instruction No. 207.
- (8) Investments are authorized and legal and are made, documented, recorded, presented, and reported in accordance with Agricultural Marketing Service Directive 443.1 and MA Instruction Nos. 201, 207 and 208.

c. Criteria.

Agricultural Marketing Service Directive 443.1 - Investment of Public Funds  
 MA Instruction No. 102 - Milk Order Funds  
 MA Instruction No. 201 - Deposits and Investments of Federal Program Funds  
 MA Instruction No. 207 - Annual Budgets  
 MA Instruction No. 208 - Financial Statements

d. Audit Steps.

W/P Ref. Auditor

- (1) Provide the Market Administrator with instructions for preparing cash and investment confirmations as of the balance sheet date. (This can be done prior to the start of on-site field work so that confirmations will be ready for the auditor to mail after the

beginning of on-site field work.) For checking W/P Ref. Auditor account confirmations, request a list of authorized check signers.

- (2) Place lists of check signers in the workpapers. Document whether the check signers were authorized in accordance with AMS Dairy Programs policy and do not include terminated employees.
- (3) Obtain from the Market Administrator lists of cash and investments by fund and by financial institution, reconcile the two lists, and ascertain whether a confirmation request was mailed for each financial institution. Trace cash and investments by fund to the general ledger.
- (4) Examine records of cash and investment transactions to determine whether entries are correct and are supported by proper documentation.
- (5) Cross-reference the bank reconciliations to the bank confirmations. Foot the bank reconciliations and check the addition of outstanding checks and any deposits in transit. Vouch the material outstanding checks, deposits in transit, and other material reconciling items shown on the bank reconciliations to the cut-off statement or subsequent bank statements.
- (6) Review any bank transfers listed as reconciling items on any of the bank reconciliations and check whether the other side of the transfer was recorded properly.
- (7) Ascertain whether other relevant matters identified on each confirmation are reflected in the accounting records and statements.
- (8) Check whether accounts are identified properly with the agency. Accounts should be carried in the name "Federal Milk Market Administrator" and may be followed by a milk marketing order or area name or

number and fund identification. This identification applies to checking and savings accounts, negotiable order of withdrawal accounts, certificates of deposit, and other investments. However, the collateral account should be carried in the name "USDA Milk Market Administrator" not followed by any milk marketing order name or number.

- (9) Verify that all investments are authorized and legal for the agency and are substantiated by appropriate documentation.
  - (a) Substantiate investments by examination of statements, account agreements, and other records, in addition to confirmations.
  - (b) Determine whether investments are of the short-term "risk-free" types prescribed in MA Instruction No. 201. (Approved investments include certificates of deposit, Treasury Bills and Treasury Notes within one year of maturity.)
- (10) Examine pledgee collateral holdings or activity reports (or statements of pledged holdings or activity) issued by the Federal Reserve Bank to pledgee: USDA Milk Market Administrator (and any letters from the Market Administrator requesting a financial institution to pledge securities as collateral or authorizing the Federal Reserve Bank to release collateral).
  - (a) Determine whether collateral pledged by financial institutions was sufficient (at all times during the audit period) to secure all deposits in excess of Federal Deposit Insurance coverage.
  - (b) Determine whether the Market Administrator was in full compliance with Agricultural

Marketing Service Directive 443.1 and MA Instruction No. 201, Chapter 2, Section III, "Collateral Security."

- (11) Determine whether investments are recorded at cost (or amortized cost in the case of investments in securities purchased at discounts or premiums).
- (12) Identify any investment as of the balance sheet date that was liquidated prior to maturity. (Investments normally are held until maturity.)

If any such investment was liquidated at a significant loss, write down the investment to its market value as of the balance sheet date and consider whether a recommendation concerning compliance exception is warranted.

- (13) If material, count petty cash, undeposited cash, etc., in the presence of the custodian and:
  - (a) List currency and coins counted by denomination.
  - (b) Evaluate the propriety of invoices paid. Identify large or unusual amounts for possible follow-up.
  - (c) Have the custodian sign a receipt at the conclusion of the count.
- (14) Examine bank account and investment statements and internal cash and investment records to check whether interest accrued and/or received on deposit accounts and investments was properly allocated and recorded in accordance with MA Instruction No. 207. Cross check workpapers to section 7.3.2 (d) audit steps for accrued interest receivable and section 7.6(d) audit steps for interest earned.

- (15) Check whether interest paid on deposit accounts and investments was properly allocated and debited to cash upon receipt of payment.
- (16) Scan the adjusting journal entries for those affecting cash and investments. Post these to the cash (by fund) lead schedule to ensure that both sides of the entry were properly recorded.
- (17) Obtain any financial statement disclosures for cash and investments. Support for disclosures should be documented in the working papers.

### 7.3.2

#### RECEIVABLES.

- a. Background. The receivables testwork includes accounts receivable, notes receivable, and accrued interest receivable. Accounts receivable is subdivided into handlers, interfund, employee travel advance, and other. Handlers are the persons subject to marketing order regulations including milk plant operators and cooperative associations acting as handlers in marketing milk on behalf of producers. Accounts receivable from fully regulated handlers include administrative assessments due, marketing service fees due, and payments due to the producer settlement fund (and transportation credit balancing fund, if any). Since accounts receivable from handlers vary with prices and quantities of milk pooled, some subsidiary accounts may at times have negative balances.

Balances of accounts receivable may be increased by charges on over due accounts (late-payment charges) as provided in the order.

Additional background information is included for each of the three types of receivables under the audit steps in this subpart.

- b. Objectives. The objectives of this section of the guide are to ascertain whether:
  - (1) Receivables are correctly classified, recorded, posted, summarized and reported.
  - (2) Transactions involving receivables are substantiated by supporting documents and explanations when appropriate.

- (3) Appropriate determinations of collectibility were made and proper entries were recorded when necessary to comply with MA Instruction No. 109.
- (4) Appropriate actions have been taken to collect delinquent accounts.
- (5) Late-payment charges on overdue accounts receivable and interest on cash, investments, and any notes receivable have been properly recorded.

c. Criteria.

MA Instruction No. 109 - Uncollectible Accounts Receivable

MA Instruction No. 207 - Annual Budgets

MA Instruction No. 208 - Financial Statements

d. Audit Steps.

A. Accounts Receivable.

Accounts receivable are due from handlers on the payment dates specified in the order. Market Administrators review accounts receivable from handlers in the monthly pool billing cycle and record late-payment charges on overdue accounts.

MA Instruction No. 208, Chapter 3, Section II B 3 and Exhibit C, prescribes a status of accounts receivable schedule that is prepared by the Market Administrator as of the end of each quarter, including December 31, and submitted to the Order Operations Branch, AMS Dairy Programs.

W/P Ref. Auditor

- (1) Examine records of accounts receivable transactions to determine whether entries are correct and are supported by proper documentation.
- (2) Obtain a schedule of accounts receivable by age, fund, and debtor as of the audit cut-off date. Show payments subsequent to close of the audit period.
- (3) Check whether subsidiary accounts receivable are reconciled properly to the general ledger.

- (4) Discuss past-due accounts with the Market Administrator or designated official and determine the reasons for the delinquencies.
- (5) Determine whether the Market Administrator has taken appropriate actions to collect overdue amounts owed by handlers or other debtors in accordance with MA Instruction No. 109.
- (6) Determine whether any accounts are subject to legal settlements or are involved in litigation or bankruptcy proceedings.
- (7) Determine whether delinquent accounts were adjusted for late-payment charges (charges on overdue accounts) at the rates and times and in the manner specified in the order. (In legal settlements, negotiations or other actions to collect delinquent account balances, or in cases involving debtor insolvency or bankruptcy, the Deputy Administrator, Dairy Programs, may authorize the Market Administrator to waive and/or discontinue the accrual of some or all of the charges on overdue accounts of a specific individual debtor.)
- (8) Ascertain whether the Market Administrator has made appropriate determinations of collectibility of delinquent accounts and recognized and recorded uncollectible accounts expense and allowance for uncollectible accounts in accordance with the policy and methods specified in MA Instruction No. 109.
- (9) Determine whether any write-offs of accounts receivable during the audit period were made with proper authorization after all collection actions were exhausted in accordance with the procedures stated in MA Instruction No. 109.

W/P Ref. Auditor

- (10) Determine whether discharged debts, including debts discharged in bankruptcy or because of debtor insolvency, were reported to the Internal Revenue Service on Form 1099-C, as required.
- (11) Determine whether any accounts receivable transaction indicates improper use of funds.
- (12) Reconcile interfund accounts receivable to the corresponding interfund accounts payable. Interfund receivables and payables must match between funds.
- (13) Determine whether travel advances were made and repaid in compliance with MA Instruction 204 Federal Travel Regulations, Chapter 301-Travel Allowances, Section 301-10.3 Advance of Funds.
- (14) Substantiate accounts receivable from handlers and others with confirmations as of the balance sheet date, including accounts that were written off.

B. Notes Receivable.

Loans may be made to other Market Administrators only with the prior approval of the Deputy Administrator, Dairy Programs, at a rate of interest approximating the market rate for Treasury Bills of a comparable term at the time the loan is made. The Market Administrator may hold notes receivable for the purpose of satisfying delinquent accounts receivable from handlers or others only as authorized by the Deputy Administrator, Dairy Programs, upon advice of General Counsel. The Market Administrator should be expected to hold a note receivable only in rare circumstances and should be explained fully in the auditor's report.

W/P Ref. Auditor

- (1) Schedule notes receivable, if any, for loans to other Market Administrators and reconcile with general ledger accounts.
- ( 2 ) Send confirmation letter(s) to creditors, if any .

- (3) Determine whether notes receivable, if any, for W/P Ref. Auditor loans to other Market Administrators bear a rate of interest approximating the market rate for Treasury Bills of a comparable term at the time the loan was made and whether such interest was accrued and received.
- (4) Determine whether interest on notes receivable, if any, was properly received and recorded.
- (5) Ascertain whether the making of any loan (except a travel advance to an employee) or the holding of any note receivable was approved by the Deputy Administrator, Dairy Programs.
- (6) Determine and explain in the audit report the circumstances and reasoning that led to the execution and holding of any note receivable.

C. Accrued Interest Receivable.

Interest may be accrued on any combination of checking, negotiable order of withdrawal, or savings accounts; certificates of deposit; Treasury Bills; or Treasury Notes covered in the Cash and Investments section of the guide. Interest is also accrued for amortization of any discounts (and debited for amortization of any premiums) on the purchases of securities held as investments. Such amortization and interest income are credited to interest earned (account 403) of the fund contributing the resources or principal on which interest is earned, unless otherwise provided in the terms of the order.

Although the description of accounts 130 (accrued interest receivable) and 403 (interest earned) in MA Instruction No. 207, Exhibit C, indicate monthly accrual, quarterly or even annual accrual may be done where practical if interim statements are not significantly affected. If a calendar month bank statement showing interest earned and paid is received and interest is recorded before the close of the accounting cycle, no accrual is needed. Policy on use of the accrual method is included in Chapter 2, Section II, of the instruction.

- (1) Examine records of interest accrual to determine W/P Ref Auditor whether entries are correct and are supported by proper documentation.

- (2) Ascertain whether accrued interest receivable was properly credited for interest received. Crosscheck interest receivable credits to cash receipts.
- (3) Crosscheck the balances of accrued interest receivable to the interest schedule in the workpapers for cash and investments and interest earned.
- (4) Reconcile accrued interest from the schedule in the preceding step to the accrued interest receivable account in the general ledger.

### 7.3.3

#### PREPAID EXPENSES, DEPOSITS AND MISCELLANEOUS

- a. Background. This section consists of prepaid expenses, deposits and miscellaneous assets. Prepaid expenses include prepaid rent, prepaid insurance, and other prepaid items, if any. Yearend balances of prepaid expenses represent the unexpended portions of values of use, coverage, or services paid in advance and expected to benefit or to be consumed in subsequent operations over a period of time extending into the next accounting cycle. Deposits include security deposits on leased office and storage facilities and rented equipment, if any. Miscellaneous includes any other assets not covered under cash and investments, receivables, prepaid expenses, deposits, or fixed assets.
- b. Objectives. The objectives of this section of the guide are to ascertain whether:
  - (1) Prepaid expenses, deposits and miscellaneous assets are correctly classified, recorded, posted, summarized and reported.
  - (2) Transactions involving prepaid expenses, deposits and miscellaneous are substantiated by supporting documents and explanations when appropriate.
  - (3) Balances actually represent asset values rather than current expenses.
  - (4) Asset valuations are appropriate.
- c. Criteria.

MA Instruction No. 207 - Budgets  
MA Instruction No. 208 - Financial Statements

d. Audit Steps.

W/P Ref. Auditor

- (1) Obtain or prepare an analysis for each account (prepaid expenses, deposits, and miscellaneous). The analysis should include a description of the significant components, changes during the year, and beginning and ending balances.
- (2) Foot the analysis and trace the ending balance to the general ledger and the beginning balances to the financial statements for the preceding year.
- (3) Examine records of transactions for prepaid expenses, deposits, and miscellaneous to determine whether entries are correct and are supported by proper documentation, especially for material changes during the year.
- (4) Determine whether deposits are refundable in cash or may be applied to cover expenses at a later date and actually are current assets rather than past costs.
- (5) Confirm significant deposits and assets held by others.
- (6) Determine whether balances of prepaid expenses represent unexpended portions of items paid in advance that are chargeable appropriately to future period expenses.
- (7) Trace amortization of prepaid expenses to corresponding expense accounts.

7.3.4

FIXED ASSETS AND ACCUMULATED DEPRECIATION.

- a. Background. The chart of accounts (MA Instruction No. 207, Exhibit B) classifies Fixed Assets as Land, Buildings, Motor Vehicles, Furniture and Equipment, Laboratory Equipment, Leasehold Improvements, Other Depreciable Assets, and Accumulated Depreciation for each of these fixed asset categories except Land. Not all of these classifications are used by every Market Administrator. For instance, unless the Market Administrator owns

real estate, cars or trucks, there would be no need to maintain general ledger accounts for Land, Buildings, and Motor Vehicles. Descriptions of account classifications are provided in MA Instruction No. 207, Exhibit C.

Motor vehicles may include passenger cars, station wagons, vans, and trucks. Trucks may be equipped with bulk tanks and bulk tank calibration units with pumps and flow meters used in measuring and calibrating bulk farm milk tanks. Motor vehicles may be used for various business purposes, including transportation of milk product samples for laboratory testing.

Furniture and Equipment includes filing cabinets, bookcases, desks, tables, chairs, office machines, computer hardware and software, etc., used in the operations of the market administrator's office. Laboratory Equipment may include various devices used to process and test the composition of milk products for report verification and for marketing service activities. Leasehold improvements are commonly needed in conjunction with the installation of some types of laboratory equipment and fixtures as well as other areas of office operations.

Depreciation is recorded using the straight-line method over the estimated useful life of a fixed asset. Any other method requires authorization from the Deputy Administrator, Dairy Programs. Monthly depreciation of some fixed assets may be reduced by the netting of salvage values from acquisition cost before dividing by the number of months of useful life. Leasehold improvements may be depreciated in relation to the term of the lease, including periods for which the lessee expects to exercise renewal options.

Property accounts are set up and a perpetual inventory of property is maintained showing the description, location, cost, current book value, and other essential information such as make, model and serial number. Entries are posted to the general ledger reconciling it with the total cost of fixed assets carried on property inventories. Tags, labels or decals are affixed to items of property to identify their ownership.

- b. Objectives. The objectives of this section of the guide are to ascertain whether:
- (1) Fixed assets and depreciation are correctly classified, recorded, posted, summarized and reported.
  - (2) Transactions involving fixed assets are substantiated by supporting documents and explanations when appropriate.

- (3) Physical existence of property is substantiated with property inventory records and ownership of property is identified with tags, labels or decals.
- (4) Fixed Assets are recorded at acquisition cost.
- (5) Depreciation methods are consistently applied in accordance with MA Instruction No. 215.
- (6) Proper authorizations were obtained for purchases, disposals and transfers of fixed assets, including approvals from AMS Dairy Programs as required in MA Instruction Nos. 207 and 215.
- (7) The total cost of fixed assets on property inventories were reconciled properly to the general ledger.

c. Criteria.

MA Instruction No. 207 - Annual Budgets  
MA Instruction No. 208 - Financial Statements  
MA Instruction No. 215 - Property Accountability

d. Audit Steps.

W/P Ref. Auditor

- a. Examine the property inventory list that the Market Administrator prepared from the perpetual inventory and used to perform the annual physical inventory. Also, examine supporting property records.
  - (a) Ascertain whether the property inventory list includes property at main and branch offices and mobile and portable property used away from the office.
  - (b) Determine whether items on the property inventory list were matched properly with results of the physical inventory and updated as necessary.
  - (c) Determine whether the property inventory list, including any corrections or updated items, was appropriately signed or initialed by certifying custodians of the property.

- (d) Determine whether supporting property records adequately substantiate items on the property inventory list.
  - (e) Determine whether the yearend balance in each fixed asset account was reconciled properly with property inventory records.
  - (f) Reconcile totals of perpetual inventory records with general ledger accounts for each classification for the administrative and marketing service funds.
- (2) Substantiate items on the property inventory list as of the end of the audit period by physical observation of property at the location of field work.
- (a) Ascertain whether items of property shown on the inventory listing that are no longer in custody were disposed subsequent to the date of inventory.
  - (b) Ascertain whether items of property in custody that do not appear on the inventory listing were acquired subsequent to the date of the inventory.
  - (c) Observe whether fixed assets are identified as property of the Market Administrator with physically affixed tags, labels or decals (or other means of identification for property such as computer software.)
  - (d) Ascertain whether excess and unserviceable property has been identified and whether appropriate steps are being taken to use or dispose of such property.
- (3) Compare items on property inventory listing as of end of audit period to items on property inventory listing as of end of previous audit period.

- (a) Ascertain whether items of property shown on the inventory listing as of the end of the preceding audit period but not shown on the inventory listing as of the end of the current audit period were disposed during the current audit period and whether such disposition was made in accordance with the policies set forth in MA Instruction No. 215 (or MA Instruction No. 210 prior to 1998) and is properly documented by supporting records.
- (b) Ascertain whether items of property shown on the inventory listing as of the end of the current audit period but not shown on the inventory listing as of the end of the preceding audit period were acquired during the current audit period, whether such acquisitions are documented properly by supporting records, and whether such acquisitions (or purchases) of fixed assets were authorized and recorded in accordance with MA Instruction Nos. 207 and 215 (or MA Instruction No. 210 prior to 1998).
- (4) Examine records of transactions to determine whether fixed assets are carried correctly at cost and are supported by proper documentation.
- (5) Determine whether property items were capitalized as prescribed in MA Instruction No. 215 (or MA Instruction No. 210 prior to 1998).
- (6) Determine whether depreciation on fixed assets was accrued and computed using the straight-line method as prescribed in MA Instruction No. 215 (or MA Instruction No. 210 prior to 1998). If any other method was used, ascertain whether approval was obtained from the Deputy Administrator, Dairy Programs.

- (7) Ascertain whether items of capital property were disposed in accordance with MA Instruction No. 215 (or MA Instruction No. 210 prior to 1998). W/P Ref. Auditor
- (a) If capital property was sold to another Market Administrator, ascertain whether approval was obtained from the Deputy Administrator, Dairy Programs.
  - (b) If property was sold to any employee, ascertain whether that employee was accountable for it or was involved in its sale or declaration as excess property.
- (8) Review administrative procedures to determine whether there are adequate controls to do the following:
- (a) Safeguard property and assure its protection against unauthorized removal.
  - (b) Assure that accountable property is used only for business purposes.
- (9) Review any footnotes to the financial statements for fixed asset disclosures and identify the source of information disclosed.

#### 7.4. LIABILITIES.

- a. Background. This section of the audit guide pertains to the fiscal accountability for liabilities in the Administrative, Marketing Service, and Producer Settlement funds and Transportation Credit Balancing Fund, if any, and any other fund maintained by the Market Administrator. Audit steps in this section are divided into four subparts: Accounts Payable; Employment Liability; Other Liabilities, and Contingent Liabilities.

Accounts Payable are classified for handlers, interfund, trade creditors, and others. The classification for accounts payable to handlers may also be used for

amounts payable to producers and cooperative associations. Since amounts of accounts payable to handlers vary with prices and quantities of milk pooled, some subsidiary accounts may at times have negative balances.

Employment Liability includes Accrued: Employee Salaries Payable, Annual Leave, Employer Payroll Contributions, and Payroll withholdings.

Other Liabilities include: Accrued Interest Payable, Notes Payable, and Miscellaneous.

Loans may be obtained from other Market Administrators only with the prior approval of the Deputy Administrator, Dairy Programs, at a rate of interest approximating the market rate for Treasury Bills of a comparable term at the time the loan is made. The Market Administrator should be expected to execute a note only in rare circumstances that should be explained fully in the auditor's report.

A contingent liability may at times result when a handler protests a determination made by a market administrator and petitions the Secretary of Agriculture for remedy under the 7 U.S.C. 608c(15)(A) administrative appeals process or seeks judicial action from the courts and when the uncertain outcome of a proceeding may entail a decision or judgment resulting in some amount payable to the handler in a future period. Administrative appeals or other significant pending litigation should be disclosed and explained in the footnotes to the financial statements even if no contingent liability is created.

- b. Objectives. The objectives of this section of the guide are to ascertain whether:
- (1) Liabilities are correctly classified, recorded, posted, summarized and reported.
  - (2) Transactions involving liabilities are substantiated by supporting documents and explanations when appropriate.
  - (3) Liabilities were incurred with proper authorization and in compliance with applicable laws, regulations, and directives.
  - (4) Contingent Liabilities, administrative appeals and any other significant pending litigation are disclosed properly and described in footnotes to the financial statements.

- (5) Employees forfeiting a significant amount of annual leave during the audit period are identified.

c. Criteria.

MA Instruction No. 203 - Salary and Wage Plan for Milk Market Administrators and Their Employees

MA Instruction No. 206 - Maintenance of Leave Records; Transfer of Leave Records and Cash Value of Annual Leave

MA Instruction No. 207 - Annual Budgets

MA Instruction No. 208 - Financial Statements

MA Instruction No. 305 - Performance Appraisal System

MA Instruction No. 306 - Leave

AMS Directive 305.2 - Leave

d. Audit Steps.

W/P Ref. Auditor

A. Accounts Payable.

- (1) Obtain or prepare a schedule of accounts payable by fund and classification, showing amounts, dates, names of creditors, and related expense accounts charged, if applicable.
- (2) Examine records of accounts payable transactions to determine whether entries are correct and are supported by proper documentation.
- (3) Reconcile accounts payable to related expense accounts, if applicable, and cross-reference audit workpapers to related expenses as appropriate.
- (4) Check whether subsidiary accounts payable were reconciled properly to accounts payable in the general ledger.
- (5) Check whether cash discounts were taken when applicable.
- (6) Examine interfund accounts payables to determine their nature and origin.

- (7) Reconcile interfund accounts payable to the corresponding interfund accounts receivable. Interfund payables and receivables must match.
- (8) Examine supporting records to determine whether accounts payable were incurred with proper authorization and in compliance with applicable laws, regulations, including milk marketing order provisions, and directives.
- (9) Determine the origin and propriety of any accounts payable to employees.

B. Employment Liability.

- (1) Obtain or prepare a schedule of accruals for each classification of employment liability by fund, showing accounts, dates, amounts, and corresponding expense accounts charged.
- (2) Examine records of employment liability transactions to determine whether entries are correct and are supported by proper documentation.
- (3) Examine supporting records to determine whether employment liabilities were incurred with proper authorization and in compliance with applicable laws, regulations, and directives.
- (4) If an employee transferred to or from another Market Administrator's office or another Federal agency, check whether the gross value of the annual leave was paid or received, respectively.
- (5) Check whether the accrued annual leave account (and credit hour account, if any) was charged properly for amounts of lump sum payments and the value of leave transferred out and credited with the value of annual leave transferred in.

- (6) Check the balances of accrued annual leave, compensatory time, overtime, and compressed hours or credit hours to see whether they equal the values of such time earned but not used or paid as of the yearend balance sheet date calculated as the sum of the accrued hours of each employee multiplied by the employee's applicable hourly pay rate.
- (7) Check time and attendance and leave records for compliance with instructions relating to work schedules and leave, including part-time and full-time employment, annual leave, sick leave, compensatory time, overtime, compressed hours, credit hours, and flexible work schedules.
- (8) Check whether the number of hours of annual leave credited each biweekly pay period on employees' leave records are correct for their respective leave categories based on employment status and length of service. Accruals of annual leave may 0, 4, 6, or 8 hours per pay period or prorated hours for part-time employees depending on bi-weekly work schedules.
- (9) Ascertain whether any employee forfeited a significant amount of annual leave at the close of any leave year that overlaps the audit period and determine the reasons for any such forfeitures.
- (10) Reconcile employment liability account balances to payments made subsequent to the balance sheet date.
- (11) Reconcile accruals to taxable wage summaries prepared from payroll registers.
- (12) Reconcile wages per payroll register to payroll tax returns.
- (13) Examine payroll tax returns and applicable tax deposit receipts.

C. Other Liabilities.

- (1) Obtain or prepare a schedule of accruals for each classification of other liabilities, showing accounts, dates, amounts, and corresponding expense accounts charged.
- (2) Examine records of transactions for other liabilities to determine whether entries are correct and are supported by proper documentation.
- (3) Schedule notes payable, if any, for loans from other Market Administrators and reconcile with general ledger accounts.
- (4) Determine whether notes payable, if any, for loans from other Market Administrators bear a rate of interest approximating the market rate for Treasury Bills of a comparable term at the time the loan was received and whether such interest was accrued and paid.
- (5) Determine whether notes payable, if any, for loans from other Market Administrators were approved by the Deputy Administrator, Dairy Programs, as investments of the lending Market Administrators in accordance with MA Instruction No. 201.
- (6) Determine and explain in the audit report the circumstances that led to the execution of any note payable and cite the authority for its issuance.
- (7) Examine supporting documents for notes payable, accrued interest payable and miscellaneous liabilities.
- (8) Schedule and explain all significant miscellaneous liabilities and reconcile with them with the general ledger accounts.

- (9) Examine supporting records to determine whether other liabilities were incurred with proper authorization and in compliance with applicable laws, regulations, and directives.

D. Contingent Liabilities.

- (1) Determine whether the Market Administrator is aware of all contingent liabilities, such as obligations under research contracts, or petitions filed by handlers pursuant to Section 608c(15)(A) of the Agricultural Marketing Agreement Act of 1937.
- (2) Disclose and explain in the footnotes to the audited financial statements the contingent liabilities, administrative appeals under 7 U.S.C. 608c(15)(A), and any other significant pending litigation.

7.5. FUND BALANCES.

- a. Background. Fund balances include the administrative fund operating balance, the marketing service fund operating balance, the producer settlement fund unobligated balance and obligated balance, and the transportation credit balancing fund balance, if any.

The operating balances of the administrative and marketing service funds provide for continuing operations of the Market Administrator's office, including reserves to complete remaining business and close out operations in the event an order is terminated. In that event, any excess funds from liquidation are distributed to contributing handlers and producers in an equitable manner.

The unobligated balance of the producer settlement fund serves as a clearing account for pool equalization payments from and to handlers. After the pool computation cutoff date, the unobligated balance is factored into the monthly computation of the uniform price, basic blended price, weighted average differential or producer price differential, as applicable. A subtraction in the computation of the applicable price leaves an amount in the unobligated balance that is sufficient generally to enable the Market Administrator to make timely payment of all pool credits to handlers (and payments to producers, if applicable) despite possible delinquencies of some handlers with debit accounts. The amount is also sufficient generally to cover net payments

to handlers for adjustments of prior months based on audits performed by the Market Administrator's staff. Adjustments from such audits may increase or decrease the unobligated balance. The unobligated balance after pool equalization generally is composed largely of the subtraction from the computation of the uniform price, basic blended price, weighted average differential or producer price differential for the most recent month pooled. In the event an order is terminated (without its marketing area being merged into another marketing area in the following month), the remaining balance is subsequently distributed in an equitable manner among producers associated with the market in the latest month(s) before termination.

The obligated balance of the producer settlement fund may include amounts subject to administrative appeal that relate to petitions filed by handlers pursuant to Section 608c(15)(A) of the Agricultural Marketing Agreement Act of 1937 or subject to any other pending litigation, regardless whether payment has been received from the handler. The obligated balance also could include some obligations owed by handlers that are delinquent in their payments to the Market Administrator for the producer settlement fund, regardless whether such obligation is disputed, as long as the related account receivable from such handler is determined to be collectible. A producer settlement fund balance is recorded as obligated when the Market Administrator determines that the amount should not be factored into the computation of uniform price, basic blended price, weighted average differential or producer price differential, as applicable, through its inclusion in the unobligated balance. If an administrative appeal or other litigation is resolved in favor of the Market Administrator or if delinquent accounts are collected, the related amounts of the obligated balance would be transferred to the unobligated balance when the Market Administrator determines that the amount should be factored into the applicable price computation.

- b. Objectives. The objectives of this section of the guide are to ascertain whether:
- (1) Fund balances are correctly classified, recorded, posted, summarized and reported.
  - (2) Fund balances actually represent equity or excess of assets over liabilities.
  - (3) Transactions involving fund balances are substantiated by supporting documents and explanations when appropriate.
  - (4) Adjustments and transfers of fund balances are appropriate and done with administrative approval when required.

(5) The yearend operating balances of the administrative and marketing service funds were maintained at levels that result in an operating reserve within the parameters prescribed in MA Instruction No. 207.

c. Criteria.

MA Instruction No. 207 - Annual Budgets

MA Instruction No. 208 - Financial Statements

d. Audit Steps.

W/P Ref. Auditor

- (1) Reconcile the yearend balance of each fund with the balance at the end of the preceding year.
- (2) Examine records of fund balance transactions to determine whether entries are correct and are supported by proper documentation.
- (3) Examine adjustments and transfers of fund balances to determine whether such transactions are appropriate and done with proper administrative approval where required.
- (4) Review the yearend combined operating reserves for the administrative and marketing service funds in relation to actual expenses to determine whether the level of such operating reserves falls within the parameters prescribed in MA Instruction No. 207. If the operating reserves at the end of the audit period exceed the upper limit or fall below the lower limit prescribed in the instruction, the auditor should ascertain whether subsequent events or actions have brought the level of operating reserves into compliance with the instruction and should consider whether a recommendation to decrease or increase the operating balance is warranted.

7.6

INCOME.

- a. Background. Revenues for the operations of the Market Administrator's office are derived from the administrative assessment, marketing service deductions,

late-payment charges assessed on overdue accounts, interest earned on investments and deposit accounts, reimbursement for services rendered, gain on sale or trade-in of property and other income.

Additional background information is included for each of the these types of income under the audit steps in this subpart.

b. Objectives. The objectives of this section of the guide are to ascertain whether:

- (1) Income items are correctly classified, recorded, posted, summarized and reported.
- (2) Transactions involving income are substantiated by supporting documents and explanations when appropriate.
- (3) Other income is recognized properly in the income and expense statement (or statement of revenues and expenditures) and described in the footnotes.
- (4) The income and expense statement is prepared in conformance with MA Instruction Nos. 207 and 208. The audited statement of the Market Administrator should include reimbursement, if any, from other Market Administrators and nonprogram items. (AMS Dairy Programs makes any adjustments to eliminate interfund balances when consolidating the financial statements of all Milk Market Administrators.)
- (5) Any assessment waivers were approved by the Deputy Administrator, Dairy Programs.

c. Criteria.

MA Instruction No. 111 - Public Release of Information

MA Instruction No. 207 - Annual Budgets

MA Instruction No. 208 - Financial Statements

MA Instruction No. 215 - Property Accountability

d. Audit Steps

1. Administrative Assessments and Marketing Service Deductions

The principal sources of income for the operations of the Market Administrator's office are the administrative assessment and marketing service deductions. The administrative assessment applies to the quantity of producer milk received by handlers participating in the marketwide pool. The

marketing service deductions apply only to the quantity of milk received from producers who are not members of qualified cooperative associations that provide certain marketing services to their members. The administrative assessment and marketing service deductions are charged to handlers at a rates approved by the Deputy Administrator, Dairy Programs, not in excess of the maximum rates specified in the order.

Handlers that pay marketing service deductions are allowed to subtract marketing service deductions at the same rate when calculating payments to nonmember producers for milk received from their farms. Consequently, through deductions from the producer payroll, nonmember producers pay for marketing services performed for them by the Market Administrator, even though the handlers actually remit sums of the deductions to the Market Administrator. (In cases where a Market Administrator pays producers, the Market Administrator also makes the marketing service deductions directly.)

W/P Ref. Auditor

- (1) Check the rates of administrative assessment and marketing service deductions during the audit period to ascertain whether the rates, as well as any waivers of assessments or deductions, were approved by the Deputy Administrator, Dairy Programs, and whether the rates were less than or equal to the maximum rates specified in the order(s).
- (2) Determine the reasons for any significant fluctuations in the amounts of monthly administrative assessment or marketing service deductions, aside from waivers, rate changes, or the number of days' production in a month. (Some variation is attributable to the seasonality of milk production.)
- (3) Examine the monthly calculation of income from the administrative assessment. Income is calculated as the rate in effect multiplied by the hundredweights of producer milk receipts reported by handlers on their reports of receipts and utilization (of milk and milk products) included in the marketwide pool. Administrative assessment income is adjusted for any differences in quantities of producer milk found in audits of the handlers' reports performed by the

Market Administrator's staff. Differences are multiplied by the rates in effect for the months reported.

- (4) Examine the monthly calculation of income from marketing service deductions. Income is calculated as the rate in effect multiplied by the hundredweights of nonmember producer milk receipts reported by handlers on their reports of receipts and utilization included in the marketwide pool. Income from marketing service deductions is adjusted each month for any differences in quantities of nonmember producer milk found in audits of the handlers' reports performed by the Market Administrators's staff. Differences are multiplied by the rates in effect for the months reported

2. Late-Payment Charges Assessed On Overdue Accounts

Section .78 of each order is a provision for charges on overdue accounts. Such charges are made to the accounts of handlers who are delinquent in making payments pursuant to any of the several sections of the order referenced in section .78. Section .78 prescribes the timing, fixed percentage rate, and method for such charges, including the designation of the fund to which such charges accrue as debits to accounts receivable from handlers (account 110) and credits to late-payment charges assessed (account 402). The fixed percentage rates are applied monthly to unpaid obligations owed by handlers. By virtue of becoming part of the handler's obligation, charges on overdue accounts that remain unpaid at the due date for each subsequent month are also subject to charges on overdue accounts, in essence, compounding the charges monthly.

In circumstances involving a handler as a debtor in bankruptcy or legal settlements, negotiations, or other actions to collect the balances of delinquent accounts, the Deputy Administrator, Dairy Programs, may authorize the Market Administrator to waive or discontinue accrual of charges on overdue accounts. Collection actions and related procedures are prescribed in MA Instruction No. 109 and are addressed in the Receivables section of the guide.

- (1) Examine records of late-payment transactions to determine whether entries are correct and are supported by proper documentation.
- (2) Determine whether past-due accounts were adjusted for late-payment charges (charges on overdue accounts) at the rate and times and in the manner specified in the order. (Refer to Section .78 of the order.)
- (3) Crosscheck late-payment charges to the workpapers for accounts receivable and ascertain whether late-payment charges were assessed on all delinquent handler accounts. Also crosscheck late-payment charges to the workpapers for accounts payable, since charges on overdue accounts may accrue as debits to accounts payable if the account of a delinquent handler previously had a normal credit balance.
- (4) Ascertain whether any waiver or discontinuation of accrual of late-payment charges on overdue accounts was done with authorization from the Deputy Administrator, Dairy Programs, in accordance with MA Instruction No. 109.

C. Interest Earned

Interest may be earned on any combination of checking, negotiable order of withdrawal, or savings accounts; certificates of deposit; Treasury Bills; or Treasury Notes covered in the Cash and Investments section of the guide.

Interest earned is credited also for amortization of any discounts (and debited for amortization of any premiums) on the purchases of securities held as investments. Such amortization and interest income are credited to interest earned (account 403) of the fund contributing the resources or principal on which interest is earned, unless otherwise provided in the terms of the order.

- (1) Examine bank account and investment statements showing interest paid.
- (2) Determine whether interest from bank and investment accounts was reconciled properly to interest earned.
- (3) Obtain or prepare a schedule of interest paid on checking, negotiable order of withdrawal, and savings accounts, any certificates of deposit, any U.S. Government securities, and any other investment, deposit account, or other source of interest received, as well as yearend accruals of interest earned and accrued interest receivable.
- (4) Reconcile interest received and interest accrued from the schedule in the preceding step to the interest earned account in the general ledger.
- (5) Crosscheck the balances of interest earned to workpapers for accrued interest receivable and interest bearing cash and investments.
- ( 6 ) Ascertain whether discounts or premiums on investments in U.S. Government securities were amortized to interest earned in accordance with MA Instruction No. 207. However, monthly accrual may not always be necessary if the amounts of amortization would be immaterial

D. Reimbursement for services rendered

Market Administrators may receive reimbursement for the costs of services rendered to other Market Administrators, other agencies, or other entities. None of the transactions involving other agencies are of a magnitude that would exceed the Department's threshold for elimination entries. The classification of reimbursement for services rendered is divided into salaries, travel, testing and weighting, and other. Reimbursement for services rendered is accounted for in accordance with MA Instruction No. 207, Chapter 2, Section II B, and MA Instruction No. 208, Chapter 3, Section III B 5.

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- (1) Examine records of reimbursement transactions to determine whether entries are correct and are supported by proper documentation.
- (2) Ascertain whether items of reimbursement are allocated properly.
- (3) Make necessary adjustments to include in income and corresponding expenses all reimbursement items that were excluded previously. All reimbursement should be reflected as income and all costs of services rendered should be reflected as expenses in the audited financial statements regardless whether the costs involved are borne ultimately by other Market Administrators, other agencies, or other entities that reimburse such costs.
- (4) Determine whether costs billed for services rendered were computed correctly. The cost of gross salaries should include employer contributions to the Civil Service Retirement System or Federal Employees Retirement System, Federal Employee Group Life Insurance, Federal Employee Health Benefits, Social Security, Medicare, and Thrift Savings Plan, as well as the cost of accrued annual and sick leave.

E. Gain on Sale or Trade-in of Property

A gain on sale of property is realized when a fixed asset is sold for more than its depreciated book value. Policies regarding the disposition of fixed assets are set forth in MA Instruction No. 215. (Policies regarding the disposition of fixed assets for 1997 and prior years are covered in MA Instruction No. 210.)

- (1) Examine records of transactions for property sales and trade-ins to determine whether entries are correct and are supported by proper documentation, including inventory records that document all property disposition.

- (2) Ascertain whether property was sold to employees who were accountable for, used or were involved in condemnation or sale of the property and whether adequate controls are in place to prevent the sale of property to such employees.
- (3) Ascertain whether documentation supports determinations that property was sold at fair market values and best offers and whether estimates of property value were obtained and bids secured in accordance with MA Instruction No. 215 (or MA Instruction No. 210 prior to 1998).
- (4) Determine whether approval was obtained from the Deputy Administrator, Dairy Programs, if any property was sold to another Market Administrator.

F. Other Income

Any income not included in the categories above is classified as other income.

- (1) Ascertain the source of any other income and see that footnote disclosure is provided for any material amount.
- (2) Determine whether any other income is classified and allocated properly.
- (3) Examine records of transactions for any other income to determine whether entries are correct and are supported by proper documentation.

7.7.

EXPENSES

- a. Background. MA Instruction No. 207, Exhibit B, provides expense accounts numbered 501 through 539 that include all the types of expenses that are incurred normally in the operations of the Market Administrator's office. MA Instruction No. 207, Exhibit C, provides a brief description of each account. Subsidiary or constituent accounts may be maintained.

MA Instruction No. 203, "Salary and Wage Plan for Milk Market Administrators and Their Employees," provides the authorization and guidance for payment of employees. The Salaries and Services account (number 521A and 521M) reflects the gross amount of all salaries earned by employees, including the value of hours for flexible work schedules, overtime, compensatory time, holidays, sick, annual and terminal leave pay. This account also includes most amounts paid to other Market Administrators and contractors for services similar to those for which salaries are paid, aside from the Testing and Weighing account (number 511A and 511M) and Employee Insurance, Retirement and Thrift Savings Plan (number 502A and 502M).

b. Objectives. The objectives of this section of the guide are to ascertain whether:

- (1) The accounting method used to recognize expenditures is in accordance with MA Instructions and is applied consistently.
- (2) All purchases are authorized.
- (3) Expenses paid by cash are vouched and recorded properly.
- (4) Each fund is charged with its proper expenditures.
- (5) Only authorized personnel properly hired are on the payroll.
- (6) Pay rates adhere to compensation schedules.
- (7) Liabilities are recorded properly for compensated absences.
- (8) The payroll is calculated correctly.
- (9) Lump-sum leave payments and severance pay are correct.
- (10) Payments made for services rendered are for services actually received.

c. Criteria.

MA Instruction Series - 100, 200, 200; in particular:

MA Instruction No. 100 - Market Administrators

MA Instruction No. 102 - Milk Order Funds

MA Instruction No. 109 - Uncollectible Accounts Receivable

MA Instruction No. 113 - Conferences of Market Administrators

MA Instruction No. 202 - Insurance - Automobile, Office Property and Employees' Compensation

MA Instruction No. 203 - Salary and Wage Plan for Milk Market Administrators and Their Employees  
 MA Instruction No. 204 - Travel Regulations and Reimbursement of Incidental Expenses  
 MA Instruction No. 206 - Maintenance of Leave Records, Transfer of Leave Records and Cash Value of Annual Leave  
 MA Instruction No. 207 - Annual Budgets  
 MA Instruction No. 208 - Financial Statements  
 MA Instruction No. 211 - Withholdings and Contributions Under the Federal Employees' Group Life Insurance Act  
 MA Instruction No. 212 - Payment of Social Security Tax (FICA) and Payroll Information Required by Dairy Division  
 MA Instruction No. 213 - Report of Space Use by Building  
 MA Instruction No. 215 - Property Accountability  
 MA Instruction No. 216 - Federal Employee Health Benefits  
 MA Instruction No. 300 - Severance Pay  
 MA Instruction No. 301 - Training and Development for Market Administrators and Their Employees  
 MA Instruction No. 303 - Personnel Administration  
 MA Instruction No. 305 - Performance Appraisal System  
 MA Instruction No. 306 - Leave  
 MA Instruction No. 308 - Retirement  
 MA Instruction No. 309 - The Social Security Act, As Amended  
 MA Instruction No. 311 - Unemployment Compensation  
 MA Instruction No. 319 - Voluntary Leave Transfer Program

d. Audit Steps. W/P Ref. Auditor

- (1) Determine whether performance ratings were issued in accordance with MA Instruction No. 305.
- (2) Check whether personnel action forms are signed by the Market Administrator (or Acting Market Administrator).
- (3) Compare authorized employee salaries from personnel actions and compensation schedules to salaries on employee payroll. (See MA Instruction No. 203).
- (4) Ascertain whether salary payments represent compensation for actual hours of service rendered by the employee.

- (5) Test whether leave authorizations are signed by employees and approving supervisory personnel and whether employee time sheets are prepared and reviewed properly.
- (6) Examine leave records and determine whether the number of hours accrued, used by and paid to employees is correct.
- (7) Ascertain whether accruals and payments for overtime, holidays, night differential, annual leave, sick leave (including family friendly), administrative leave, compensatory time, compressed time, and credit hours are properly calculated, supported and authorized in accordance with MA Instruction Nos. 203, 306, and 319.
- (8) Ascertain whether the balance of annual leave of any employee at the beginning of the leave year exceeded the maximum allowable carry over from the end of the preceding leave year (240 hours plus restored leave, if any). Determine whether any restored leave was authorized properly.
- (9) Ascertain whether lump-sum payments to separated or retired employees for annual leave equal their respective balances carried over from the preceding leave year plus annual leave earned (net of leave used or donated) in the year of lump-sum payment. (See MA Instruction No. 306.)
- (10) Ascertain whether payments to separated or retired employees for credit hours (or other earned time for which values are accrued) are calculated properly. (See MA Instruction No. 306.)
- (11) Determine whether any severance pay is computed correctly in accordance with MA Instruction No. 300.

- (12) Determine whether all forms regarding employee insurance, retirement, and Thrift Savings Plan (account 502) are prepared properly and submitted timely in accordance with MA Instruction No. 216. W/P Ref. Auditor
- (13) Determine whether accruals and deductions for Civil Service Retirement, Federal Employees Retirement, Thrift Savings Plan, Social Security, Medicare, Federal Employees Group Life Insurance, and Federal Employee Health Benefits were made as applicable and in accordance with MA Instructions Nos. 211, 212, 308, and 216.
- (14) Review payroll tax returns. Reconcile wages reported to gross salaries. Reconcile taxes withheld to payroll tax withholding accounts.
- (15) Determine whether Federal, State and/or City income tax withheld was reported properly and timely remitted to the taxing authority.
- (16) Trace employee payroll and vouchered expenses to general ledger accounts.
- (17) Examine expense vouchers for authorized signatures.
- (18) Test travel vouchers to assure employee claims are eligible per official travel policy and current reimbursement rates.
- (19) Determine whether the Market Administrator's policies regarding any office-owned vehicles are adequate with respect to restricting the use of any such vehicle(s) (account 522) to official business.
- (20) Test whether purchases are authorized in accordance with MA Instruction No. 207.
- (21) Determine whether amounts of expenses are for the cost of goods and services or other valid items that

substantiated with supporting documentation W/P Ref. Auditor including vouchers, invoices, purchase orders, contracts, leases, etc.

- (22) Based on the strengths and weaknesses of the cash disbursement system identified during the internal control testwork, select a sample of vouchers from the voucher register. (Document the sample selection procedure.)
- (23) Test whether invoices are calculated correctly and whether voucher amounts agree with invoices.
- (24) Check whether controls are in place such as cancellation of vouchered invoices to prevent duplicate payment of expenses.
- (25) Ascertain whether expenses were recorded in correct accounts and properly allocated to or between funds.
- (26) Cross reference work done in balance sheet accounts to related expense accounts and reconcile expense totals with balance sheet changes.
- (27) Schedule all types of insurance coverage in effect at the close of the audit period and determine if the premiums have been paid.
- (28) Determine if automobile insurance coverage on all privately-owned and office-owned vehicles used in marketing order business meets the minimum property damage and public liability requirements.
- (29) Determine whether any automobile insurance policy contains a rider or endorsement similar to that shown in MA Instruction No. 202, Exhibit A.
- (30) Determine whether the Market Administrator is insured for liability under a business automobile insurance policy that covers motor vehicles owned,

rented or leased by or loaned to employees or members of their households while used for business purposes of the Market Administrator.

- (31) Determine whether fire, theft, burglary, and other insurance carried is adequate to protect the Market Administrator's property at all times.
- (32) Determine whether leases for office/laboratory space contain a termination clause that provides the lessee the right to terminate the lease in a specific number of days, not to exceed 6 months, in the event the marketing order is terminated or a consolidation of administration is directed by the Department, in accordance with memorandum number 93-19. (account 506, Rent-Buildings)
- (33) Determine whether Form AD-380, "Report of Space Use by Building," was submitted properly, if the office was relocated, additional space was rented, or a new lease was executed during the audit period, in accordance with MA Instruction No. 213. (account 506, Rent-Buildings)
- (34) Determine the reasons for renting equipment (account 507) as opposed to buying similar equipment.
- (35) Determine whether service contracts were obtained for repairs or replacement of equipment. If such service contracts were obtained, review the basis for getting this coverage as opposed to other options.
- (36) Determine whether the Deputy Administrator, Dairy Programs, authorized the Market Administrator to enter into any contract for a research project (account 502). Include a copy of any research project contract in the working papers.

Costs of research projects are generally allocated to the administrative fund because the research usually

benefits all producers and handlers. Determine whether research project costs are charged to the administrative fund. An explanation should be provided if any research project costs are charged to the marketing service fund.

Determine whether the Market Administrator received progress reports showing the status of the project.

If the project has been completed, determine from discussion with the Market Administrator what benefits were obtained and whether they were satisfactory.

Evaluate whether research costs are reasonable in relation to the benefits obtained.

Ascertain whether research findings were prepared, submitted and made available to producers and handlers, as appropriate.

7.8. COST ALLOCATIONS.

- a. Background. The basis for allocation of expenses between administrative and marketing service funds can be found in the general provisions of federal milk marketing orders (7 CFR Part 1000). The applicable section states the Market Administrator's duty to pay out of funds provided by the administrative assessment all expenses necessarily incurred in administration of the order, "except expenses associated with functions for which the order provides a separate charge." Marketing service is such a function. The fundamental concept is that marketing services should be funded by marketing service deductions from nonmember producers who receive the benefits of such services. Other costs of order administration should be funded by the administrative assessment from handlers. To fairly assess handlers and nonmember producers, expenses must be allocated in an equitable manner between administrative and marketing service funds. Where specific costs are associated exclusively with administrative or marketing service functions, the expense may be directly distributed to the applicable fund. However, joint costs are generally allocated between the two funds using percentage estimates derived for an allocation plan as part of the budget process.

b. Objectives. The objectives of this section of the guide are to ascertain whether:

(1) Expenses were allocated in accordance with a plan.

(2) The allocation plan results in consistent and equitable allocation of expenses between the administrative and marketing service funds.

c. Criteria.

7 CFR Part 1000.3(c)(3)

MA Instruction No. 207 - Annual Budgets

MA Instruction No. 208 - Financial Statements

d. Audit Steps.

W/P Ref. Auditor

(1) Obtain a copy of the market administrator's cost allocation plan. If no formal plan exists, document the Market Administrator's allocation method.

(2) Determine whether the cost allocation plan or method provides for distribution of expenses in a manner that is equitable to both handlers and producers.

(3) Determine whether expenses are allocated in accordance with the cost allocation plan or method.

(4) Ascertain whether the allocation of expenses bears a reasonable relationship to the purposes for which such expenses are incurred.

(5) Determine whether the cost allocation plan or method is applied on a consistent basis and whether any changes or adjustments to the plan, method, or percentages are reasonably based upon factors such as changes in operations or personnel.

## SECTION 8. REVIEW OF PRICING AND POOLING, AND COMPLIANCE AUDITS

### 8.1. REVIEW OF PRICING AND POOLING.

a. Background. A basic understanding of the concepts of a classified price plan, a system of minimum prices and the mechanics of a producer settlement fund, all stated in Section 3 of the guide, is essential to a review of pricing and

pooling. Class prices and minimum prices for payments to producers are computed and announced monthly.

The Market Administrator has a duty to prescribe reports required of handlers, including the design and issuance of forms for such reports for each type of handler (regulated, partially regulated, producer-handler, etc.) Handlers use such forms to report their monthly receipts and utilization of milk products, producer payroll data, and data needed for publication of market information.

Reports of receipts and utilization show the sources and quantities of milk received by each handler, the utilization of milk by class and product, the inventories of milk and milk products, and other information needed to determine the amount of pool obligation or credit, and to calculate required payments under the order, including minimum payments to producers.

Pooling procedures for the order must contain steps designed to ensure compliance with order provisions and include validations and controls designed to ensure the integrity of the producer settlement fund and handler billings and payments. Documentation maintained by the Market Administrator should provide an adequate audit trail and sufficient support for the pooling process.

The following steps should be taken to ascertain the sufficiency of reporting, pricing and pooling procedures in complying with the provisions of the order and other applicable regulations and directives, including MA Instructions.

- b. Objectives. The objectives of this section of the guide are to ascertain whether:
  - (1) Class prices are computed in accordance with the provisions of the order.
  - (2) Controls and procedures used to process information from handlers' reports of receipts and utilization through pooling provide adequate assurance that minimum prices for payments to producers are computed correctly in accordance with the provisions of the order.
  - (3) Controls and procedures for pool processing and internal accounting provide adequate assurance that billings and credits to handlers for net pool obligations and credits, administrative assessments, marketing service deductions, audit adjustments, and any overdue amounts owed to the producer settlement fund, the administrative fund, and the marketing service fund are correct.

c. Criteria.

7 CFR Part 1000, et seq.  
MA Instruction Series 100, 200, 300

d. Audit Steps.

W/P Ref. Auditor

- (1) Determine whether the forms developed by the Market Administrator for preparation of handlers' reports of receipts and utilization were submitted to the Chief, Order Operations Branch, were approved for use, and display OMB No. 0581-0032 in top right corner of the approved form.
- (2) Determine whether the forms developed by the Market Administrator for the preparation of handlers' reports of receipts and utilization display the following statement: "This report is required by the order in accordance with 7 U.S.C. 608c and d. Failure to report can result in the assessment of a civil penalty of up to \$1,000 per day (7 U.S.C. 608c(14)(B)) or, upon conviction, in a fine of up to \$5,000 per day (7 U.S.C. 608c(14)(A))."
- (3) Obtain copies of the map(s) that show(s) the market area(s) with zone price adjustments.
- (4) Obtain copies of order(s) regulating the handling of milk in the market area(s).
- (5) Obtain copies of the published class price announcements and blended, uniform or component price announcements for selected month(s) from the periods under review.
- (6) Compare the announced class prices with the supporting documentation.
- (7) Check the calculations and differentials to determine whether the class prices were computed in accordance with the provisions of the order(s).

- (8) Compare the announced blended, uniform or component price(s) with supporting documentation and determine whether such price(s) was computed in accordance with the provisions of the order(s). (To complete this step it is necessary to first complete all of the following audit steps in this subsection that have a bearing on the supporting documentation.)
- (9) Obtain a copy of any written procedures, flowcharts and checklists that are used to guide personnel through sequential steps of the pooling process.
- (10) Review procedures used to process handlers' report data through a pool computation, including any written procedures, flowcharts, checklists, documentation of computer programs, and discussions with personnel responsible for pool processing, and evaluate whether such procedures provide adequate technical guidance and controls for the pooling process.
- (11) Determine whether reports of receipts and utilization are signed by appropriate authorizing officials of the reporting handlers and contain certifications substantially as stated in MA Instruction No. 107.
- (12) Determine whether correct calculations were made to ascertain whether supply plants met shipping requirements that qualified them as pool plants.
- (13) Determine whether correct calculations were made to ascertain whether distributing plants met route disposition percentages that qualified them for pool plant status.
- (14) Determine whether correct calculations were made to ascertain whether reported shipments exceeded diversion limitations.

- (15) Determine whether control totals were used help to ensure that quantities are accumulated correctly on reports of receipts and utilization.
- (16) Determine whether milk products transferred (or diverted) between plants were matched to assure that quantities and classification of milk products are the same at both shipping and receiving plants prior to allocation.
- (17) Determine whether classification of shipments from pool handlers to nonpool plants is reviewed.
- (18) Determine whether product types, quantities, and classification are compared with previous reports and significant changes reviewed for reasonability.
- (19) Determine whether beginning inventories are either matched with the preceding month's ending inventories or brought forward from the preceding month's ending inventories on precoded reports.
- (20) Determine whether the assignment of producer milk to classes was made in accordance with the allocation provisions of the order.
- (21) Determine whether the marketwide gross value of producer milk pooled was reconciled properly with the marketwide utilization value of milk pooled at class prices.
- (22) Determine whether the sum of net pool obligations to handlers was reconciled properly with sum of net pool credits to handlers.
- (23) Select a sample of reports of receipts and utilization of handlers in the market for review of the computation of the net pool obligation or credit, the administrative assessment, the marketing service deductions (if there is nonmember producer milk), and transportation credit amounts (if any). Reports

may be selected from any of the months in the audit period. Different months may be selected for review of different handlers' reports.

- (24) Examine each selected report of receipts and utilization and compare to the corresponding statement of net pool obligation or credit.
- (25) Determine whether the value of the handler's utilization at the applicable month's class prices is calculated correctly.
- (26) Determine whether classified values are allocated properly and assigned to producer milk.
- (27) Determine whether location adjustments are calculated correctly with applicable zone differentials.
- (28) Determine whether the net pool obligation or credit is calculated correctly.
- (29) Determine whether the product pounds of producer milk multiplied by the applicable rate per hundredweight of administrative assessment equals the dollar amount of administrative assessment shown.
- (30) Determine whether the product pounds of nonmember producer milk (if any) multiplied by the applicable rate per hundredweight of marketing service deductions equals the dollar amount of marketing service deductions shown.
- (31) Determine whether transportation credit amounts (if any) are calculated correctly in accordance with applicable provisions of the order.
- (32) Use the Interstate Milk Shippers report or other independent source for pool testing to assure that all handlers are included in the population tested.

- (33) Trace the amounts of the net pool obligation or W/P Ref. Auditor credit, administrative assessment, marketing service deductions (if any) and transportation credit amount (if any) to the statement of the handler's account.
- (34) Review the Market Administrator's documentation of pooling, including coded handlers' reports, computer printouts, electronically stored pool data, records of audit adjustments, etc., and related billings and payments. Evaluate whether such documentation provides an adequate audit trail and sufficient support for the pooling process.

## 8.2 REVIEW OF COMPLIANCE AUDITS.

- a. Background. The Market Administrator's staff verifies reports and payments required of handlers to ensure compliance with the terms and provisions of the order(s).

Verification is accomplished in part through chemical analysis and weighing of milk product samples to determine the composition of producer milk and milk products processed or manufactured by handlers and to monitor and determine the adequacy of similar testing by laboratories of handlers and cooperatives. It is not necessary for the reviewing auditor to possess expertise in chemical analysis or laboratory procedures. It is sufficient for the purpose of this review that the auditor understands how the application of the results of such testing and weighing are used to substantiate the quantities reported and payments made by handlers.

Verification is accomplished also through examination of records, systems, and facilities of handlers by an audit staff employed by the Market Administrator. (The external auditor is referred to as the "reviewer" for the remainder of this section of the guide to avoid confusion with the "auditor" employed by the Market Administrator.) The compliance audits are primarily concerned with verification of reports of producer payroll and reports of receipts and utilization.

Each marketing order sets forth requirements for minimum payments to producers twice per month on or before specified payment dates. Section .73 of each order prescribes a partial payment near the end of each month for

producer milk received during the first 15 days of the month and a final payment near the middle of the following month for producer milk received during the entire month with the partial payment subtracted.

Handlers who receive producer milk that is not purchased from cooperative associations and cooperative associations that market producer milk are required to submit monthly reports of producer payrolls to the Market Administrator. (In orders and for conditions where the Market Administrator has the duty to pay producers, handlers are still required to submit monthly reports containing all relevant information needed for preparation of the producer payrolls.)

Handlers may use the Market Administrator's printed producer payroll report form or may, with the Market Administrator's approval, submit producer payroll reports as electronic data files on magnetic tapes or disks or via electronic bulletin board systems, e-mail, etc.

Reports of producer payrolls include producer data necessary to calculate payments to the producers and to determine required minimum payments to the producers in accordance with the payment provisions of the order.

Producer payroll reports typically show the name of the reporting handler, plant location, location differential, each producer's name, address, payroll number, cooperative association (or nonmember status), and other data which may include the number of days production, pounds of milk, price per hundredweight, producer price differential, average butterfat test (percentage), pounds of butterfat, butterfat price, pounds of protein, protein price, other solids, other solids price, somatic cell adjustment, premiums, gross value, and deductions for hauling, supplies, marketing service, association dues, any adjustment for errors made in previous months, other items authorized in writing by the producer, amount of advance payment, net amount of final payment and sometimes check numbers, except for payments made by electronic funds transfer.

Routine examination of producer payroll data is performed typically in the Market Administrator's office prior to field audits of the reporting handlers. It is done so that most instances of underpayment to producers can be identified sooner and handlers can be sent timely notification of such instances of underpayment. However, the division of responsibilities for verification of producer payroll data among data processing, producer payroll audit, field audit, pooling and audit review personnel may vary depending on the size, organizational structure, and policies of the Market Administrator.

Producer payroll audit procedures must contain steps designed to verify compliance with the producer payment provisions of the order. To this end producer payroll audit procedures are integral to the field audits where verification of compliance is completed through examination of the records and milk handling facilities of the reporting handlers and cooperative associations.

For this reason producer payroll auditing and field auditing are considered together in this section of the guide.

Central to the compliance audits is the field auditor's verification of the quantities, classification and pricing of milk products recorded on handlers' reports of receipts and utilization that are used for pooling as described in section 8.1.a. Such verification of quantities, classification and pricing of milk products received and utilized by handlers and the resultant adjustment of items that are reported incorrectly are essential to ensure that proper payments are made between the producer-settlement fund and handlers and that amounts of administrative assessments and marketing service deductions (based on the pounds of milk that handlers receive from producers) are correct. Such verification is also necessary to ensure that required payments to producers are based on the correct receipts of producer milk by handlers.

The audit steps listed in subsection d. should be taken to ascertain the sufficiency of producer payroll reporting and auditing procedures and field auditing procedures.

b. Objectives. The objectives of this section of the guide are to ascertain whether:

- (1) Audit procedures used by the Market Administrator's staff provide adequate monitoring of compliance by handlers with the provisions of the order, including verification of required payments and reported quantities and classification of milk products received and utilized.
- (2) Workpapers for handler compliance audits provide adequate documentation to support audit results.
- (3) Handler compliance audit work is done in appropriate adherence to applicable standards and policies.

c. Criteria.

7 CFR Part 1000, et seq.

MA Instruction Series 100, 200, 300

Government Auditing Standards (Yellow Book) 1994 Revision, as amended

Generally Accepted Government Auditing Standards

d. Audit Steps.

W/P Ref. Auditor

- (1) Obtain a copy of any written policies and procedures relating to the performance of producer payroll auditing and field auditing for compliance with the federal milk order(s).
- (2) Select any of the reports of Semiannual Status of Audits and Audit Review (Form MA 8) during the period under review and ascertain whether the information is reported in accordance with MA Instruction No. 105.
  - (a) Examine audit count schedules, lists or records of field audit staffing (including supervisory and review personnel) and any other supporting documentation used for the preparation of the report on the Semiannual Status of Audits and Audit Review, and determine whether such documentation agrees with the numbers reported.
  - (b) Examine the corresponding handler audit workpaper files and determine whether the applicable audit count schedules are correct.

(The reviewer may wish to limit sampling to the universe of handler audit months for which field work was reported as completed at the end of the six-month status report period, accepting the remainder of reported audits as incomplete as of the end of the reporting period. Calculation of the remainder should be checked, however, taking into account that the number of

reporting handlers may change from month to month affecting the total number of reports subject to verification for the reporting period.)

- (c) Ascertain the reasons for excessive audit backlogs if not indicated on the Semiannual Status of Audits and Audit Review (Form MA 8).
  - (d) Include in the evaluation of the handler compliance audit program suggestions or recommendations regarding any significant problems impeding audit progress if such conditions and excessive backlog have not been remedied.
- (3) Select from the period under review a sample of handler compliance audits that have been completed, reviewed (internally), and processed (including billings or payments to handlers for any audit adjustments). The audit sample should include handlers operating pool distributing plants and pool supply plants and may also include handlers operating partially regulated distributing plants, producer-handlers, cooperatives acting as handlers and any other type of operation included in the handler definition of the order.
- (4) Obtain workpapers for the selected handler compliance audits and determine how they are indexed and organized.
- (5) Ascertain whether the audit staff maintains a permanent audit file for each handler that includes both general information about the handler relevant to the milk handling provisions of the order and specific information regarding findings of previous audits, including any matters pending resolution. Obtain any of the permanent audit files needed for the review.

- (6) Ascertain whether auditors routinely follow up on findings from previous audits, especially those findings that are known or may be reasonably expected to affect subsequent audit periods.
- (7) Determine whether applicable auditing standards, policies and procedural instructions or guidelines are followed consistently.
- (8) Determine whether audit planning makes use of risk assessment or other methods that selectively and systematically limit the extent of auditing procedures based on considerations of materiality and likelihood of error in data reported by handlers for the purpose of optimizing audit coverage relative to available resources.
- (9) Ascertain whether documentation of audit planning provides adequate support for decisions regarding the nature, timing and extent of auditing procedures.
- (10) Determine how the history of audit adjustments is considered and used in planning handler audits and whether the dollar value of such adjustments is considered in addition to the product pounds and component measures.
- (11) Determine how plant shrinkage (the excess of receipts over utilization) and overage (the excess of utilization over receipts) are considered and used in planning handler audits. Overage or excessive shrinkage, especially that of a recurring nature, almost certainly indicates a problem(s) with a handler's report data, accounting records and systems, product accountability or measurement, irregular or inefficient plant operations, or other factors. Because shrinkage is inherent in the handling of milk, overage is a physical impossibility whose occurrence merits special attention, investigation, and analysis during the course of a

handler compliance audit, especially because audit adjustments for overage are greater in value pound for pound than those for shrinkage.

- (12) Determine how rotation of auditors is considered in audit planning.
- (13) Ascertain whether rotation of auditors occurs with sufficient frequency to effectively limit opportunities for collusion and possibilities of actual or perceived conflicts of interest. Field auditors responsible for completion of handler compliance audits generally should not be assigned audits of the same handler for more than 18 consecutive months without rotation.

Documentation of audit planning should include a history of assignments of handler audit months for use in assuring adequate rotation of auditors. Such documentation need not appear in the workpapers of each individual handler, if it is used in planning audit assignments for the entire office.

Staffing situations occasionally may develop that make rotation after 18 months inadequate for efficient and cost-effective administration of audits in some locations. In such isolated cases the documentation of audit planning should include ample justification for extending rotation beyond 18 months and should state actions considered or taken to improve rotation. If auditor rotation is found to exceed 18 months, the reviewer should consider any such documentation in determining whether a recommendation is warranted.

- (14) Determine how changes in class prices and differentials between class prices (as factors affecting the likelihood of material adjustments) are used in planning handler audits.
- (15) Determine whether audit checklists are used.

- (16) Ascertain whether audit workpapers contain written summarizations of audit results that include comments clarifying procedures used to obtain those results and explanations of relevant findings. Such summarizations may cover several months of audit that were assigned together. Such summarizations may be called letters of comments, auditors' comments, audit summaries or other similar names and should appear in the workpapers in addition to any comments and explanations made on schedules showing the individual findings and adjustments or differences.
- (17) Ascertain whether written summarizations of audit results document exit conferences held with handlers' representatives, identifying the persons to whom audit results were explained and when and what was explained.
- (18) Ascertain whether written summarizations of audit results include adequate explanations of significant findings and audit adjustments.
- (19) Ascertain whether written summarizations of audit results as well as comments and explanations on schedules and other workpapers are clear and concise, are consistent with other information shown in the workpapers, and serve a useful purpose in documenting auditing procedures, findings and results. Such summarizations, comments and explanations should be factually correct, logically coherent, unambiguous, and expressive of their intended meaning. They should contain definitive statements rather than interrogatives and should not leave the reader with the impression that the audit staff has failed to follow through and left things unresolved or unexplained.
- (20) Determine whether the correct legal name of the handler appears prominently in the audit workpapers

in at least one location, possibly in the summarization of audit results (letter of comments). The handler's name may be abbreviated elsewhere in the workpapers.

- (21) Determine whether the plant location (usually city and state) and type of plant or type of audit are properly indicated in the workpapers.
- (22) Ascertain whether headings and labeling of data in audit workpapers are sufficient to identify their purpose with respect to the nature of the auditing procedures.
- (23) Ascertain whether source records are identified properly in the audit workpapers.
- (24) Determine whether audit workpapers are signed or initialed properly and dated by auditors and supervisors.
- (25) Acquire an understanding of the producer payroll process through discussions with responsible personnel. Determine how duties for various stages of the producer payroll audit function are distributed among the responsible personnel. Refer to the organizational chart.
- (26) Determine how the producer payroll reporting system accounts for the receipt of producer payroll data for all producers whose milk is priced in the marketwide pool.
- (27) Determine how the pounds of milk shown on producer payroll reports are reconciled to the pounds of producer receipts shown on handlers' reports of receipts and utilization.
- (28) Ascertain what procedures are applied to establish each producer's association with the market.

- (29) Ascertain how each producer's membership in a qualified cooperative association or nonmember status is established.
- (30) Determine whether cooperative membership is documented with copies of producers' contracts with their respective cooperative associations.
- (31) Determine what procedures are applied to verify that rates, deductions, and payments of association dues are correct.
- (32) Determine what procedures are applied to verify that the rate, amount, and payment of marketing service deductions for nonmember producers is correct.
- (33) Determine what procedures are applied to verify that nonmember butterfat tests and the results of any other laboratory analyses established by the Market Administrator are used for the payment of nonmember producers.
- (34) Determine what procedures are applied to verify that handlers make partial and final payments not less than the minimums prescribed in the order to producers or their cooperatives not later than the prescribed due dates.
- (35) Determine what procedures are applied to verify that producer payroll deductions are proper and authorized by producers as the order requires.
- (36) Determine whether field auditors examine canceled checks, bank statements or records of electronic funds transfers to verify payments to producers.
- (37) Ascertain what procedures are used by field auditors to verify that producer receipts shown on handlers' reports of receipts and utilization is eligible for pooling as producer milk.

- (38) Ascertain what procedures are used to verify producers' Grade A status. Duly constituted authorities (other than the Market Administrator) determine the grade status of producers. The Market Administrator must rely appropriately on such determinations.
- (39) Determine whether ungraded (Grade B) or degraded milk received in pool plants is accounted for (by auditors) properly as other source milk and not as producer milk.
- (40) Determine whether ungraded (Grade B) or degraded milk reported by handlers as producer receipts and as diversion is adjusted properly to depool it from both producer receipts and diversion (in utilization).
- (41) Ascertain the policy regarding antibiotic milk and determine whether the policy is applied consistently.
- (42) Evaluate whether documentation maintained by the Market Administrator provides an adequate audit trail and sufficient support for the producer payroll audit process.
- (43) Ascertain whether auditors substantiate receipts of bulk fluid milk, bulk condensed milk and bulk skim milk by examination of purchase orders, invoices, vouchers, bills of lading, scale weight tickets, canceled checks, check register, cash disbursements summaries, bank checking account statements, plant intake logs, receiving tickets, or other records, as applicable.
- (44) Ascertain whether auditors trace or reconcile the values of receipts of producer milk, bulk fluid milk, bulk condensed milk and bulk skim milk to general ledger accounts such as milk purchases and to applicable income, profit and loss or cost accountability statement categories such as cost of sales or cost of goods sold.

- (45) Ascertain what auditing procedures were used to verify that supply plants met shipping requirements that qualified them as pool plants.
- (46) Ascertain what auditing procedures were used to verify that distributing plants met route disposition percentages that qualified them as pool plants.
- (47) Ascertain what auditing procedures were used to verify that diverted shipments did not exceed diversion limitations for producer milk.
- (48) Ascertain whether auditors substantiate receipts of packaged fluid milk and cream products by examination of purchase orders, invoices, vouchers, canceled checks, check registers, cash disbursement summaries, bank checking account statements, customer delivery receipts, accounts payable, or other applicable records.
- (49) Ascertain whether auditing procedures include periodic reconciliations of production to packaging and sales of the types of utilization that the order specifies as “used to produce” products manufactured from milk or cream.
- (50) Ascertain whether reconciliations of production and sales are used to make “accountability adjustments” to types of utilization that the order specifies as “used to produce,” when the difference in pounds between production and sales (adjusted for inventories and any significant nonmilk ingredients) exceeds a percentage tolerance. An “accountability adjustment” in this sense means a change from reported pounds of milk ingredients used in production to audited production equivalent pounds derived from sales (adjusted for inventories and any significant nonmilk ingredient weights or volume displacement).

Where the order specifies “used to produce” as the basis of accounting for utilization, it is improper to account for utilization on a sales basis or to make “accountability adjustments” based on reconciliations of production to sales unless the handler’s production records are found to be materially inadequate to support the quantities of milk ingredients shown as “used to produce” the product and unless the production equivalent (pounds) derived from sales is shown to be based on better objective evidence of the quantities of milk ingredients “used to produce” the product.

Where such an “accountability adjustment” is made, the explanation in the field auditor’s workpapers should indicate that the two preceding conditions are satisfied. Otherwise, the reviewer should consider whether a recommendation is warranted in this regard.

- (51) Determine what auditing procedures are applied to verify inventories of bulk and packaged fluid milk and cream products reported by handlers.
- (52) Ascertain whether inventories are substantiated by examination of physical or perpetual inventory records. (Many handlers may not take a physical inventory at the end of a calendar month, especially if they use interim accounting periods other than one month.)
- (53) Ascertain whether inventory is ever physically observed at plants that have recurring abnormal operations (overage or excessive shrinkage). Physical observation of inventory is not a regular requirement for handler audits but may be performed if there are indications of possible material deficiencies in handlers’ inventory records. Large otherwise unexplained variations in shrinkage from month to month may indicate such deficiencies.

- (54) Ascertain whether auditors trace or reconcile the values of inventories to general ledger accounts, balance sheet amounts or other financial records.
- (55) Determine what auditing procedures are used to detect possible double counting of route disposition as inventory or conversely inventory as route disposition.
- (56) Determine what auditing procedures are applied to verify disposition of packaged fluid milk and cream products reported by handlers.
- (57) Ascertain whether auditors substantiate disposition of packaged fluid milk and cream products by examination of sales billings to vendors, stores and other customers, load out records, accounts receivable, cash receipt summaries, or other applicable records.
- (58) Ascertain whether auditors trace or reconcile the values of disposition of packaged fluid milk and cream products and to general ledger sales, income statement sales or other financial records.
- (59) Determine what auditing procedures are used to verify whether all routes are included for every delivery day in a month of route disposition and whether unit quantities are accumulated and converted to pounds correctly.
- (60) Determine what auditing procedures and analyses are performed with the results of laboratory tests, chemical analyses, and measurements performed by handlers and by the Market Administrator's staff, including tests for butterfat content and, where applicable, nonfat solids, protein, lactose or other components, somatic cell count, cryoscopic freezing point tests, bulk tank calibration, container fill weighing and volumetrics.

- (61) Ascertain whether cryoscopic freezing point tests are performed when unreported reconstitution or watering of milk is suspected or is indicated by audit findings. Determine what auditing procedures are performed with the results of any such testing.
- (62) Ascertain whether container fill analyses are used to estimate underfill or overfill that may explain overage or excessive shrinkage, respectively. If the Market Administrator's laboratory work does not include container fill weighing or volumetrics in conjunction with finished product testing or if container fill analyses are not performed on audits of distributing plants, especially for handlers that have recurring overage or excessive shrinkage, the reviewer should consider recommending that such laboratory procedures and audit analyses be performed.
- (63) Determine what auditing procedures are used to match inter-plant transfers of bulk fluid milk and packaged fluid milk products between shipping and receiving plants.

## SECTION 9. RESULTS OF AUDIT

### 9.1. EXIT CONFERENCE.

- a. Background. Not applicable.
- b. Objectives. The objectives of this section of the guide are to:
  - (1) State requirements for communication of results of the financial and compliance audit.
  - (2) Explain report process.
- c. Criteria. USDA, OIG agreement with AMS Compliance and Analysis Staff and AMS Dairy Programs on audit contracting and report process.

d. Audit Steps.

W/P Ref.    Auditor

- (1) Conduct the exit conference with the appropriate officials. At the exit conference:
  - (a) Prepare an attendance sheet and obtain signatures of officials in attendance at the exit conference.
  - (b) Review the audit objectives.
  - (c) Review and discuss the results of the audit.
  - (d) Discuss the reporting process along with the type of opinion(s) the report is expected to include.
- (2) Obtain client representation letter dated the last day of the fieldwork.
- (3) Document auditee's initial response to results stated at exit conference.



- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
2. Are adequate computer security measures used to protect accounting data from unauthorized access and to prevent unauthorized transactions?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
3. Are adequate data processing controls used to protect accounting information from improper alteration or deletion and common types of errors?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
4. Is there a means to prevent and/or detect the improper addition, duplication, loss, or suppression of transaction data and to preserve the audit trail?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
5. Are duties in control areas defined and understood by employees responsible in the areas?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
6. Are duties separated in a manner that no one individual has complete autonomy over an entire financial transaction?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
7. Are duties rotated (at least for temporary periods such as vacations) with sufficient frequency and regularity to reduce the opportunity for the perpetuation of errors or irregularities in accounting procedures?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
8. Are transactions recorded on a current basis?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
9. Are written procedures maintained covering the recording of transactions?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
10. Are accounting entries referenced to indicate their source?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

11. Are accounting entries supported by readily identifiable data?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
12. Are accounting entries reviewed and approved by a responsible official other than the person(s) who prepare the accounting entries? (Show official's name in comments.)  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
13. Do accounting entries distinguish and separate the producer settlement fund (of each order administered) from all other funds?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
14. Do accounting entries distinguish and separate the transportation credit balancing fund (of each order administered), if any, from all other funds? (If none, check "N/A".)  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
15. Do accounting entries distinguish between the administrative (assessment) fund and the marketing service fund? (Refer to MA Instruction Nos. 207 and 208.)  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
16. Are actual expenditures compared to the authorized budget on a timely basis? (Refer to MA Instruction No. 207.)  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
17. Is the Market Administrator's chart of accounts consistent with MA Instruction No. 207?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
18. Was the Market Administrator's budget approved and authorized by the Deputy Administrator in accordance with MA Instruction No. 207, "Annual Budgets?"  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
19. Were budget revisions, if any, approved and authorized by the Deputy Administrator in accordance with MA Instruction No. 207, "Annual Budgets?"  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

20. Are effective procedures in place to prevent actual total expenses as well as group, individual, and fund expenses from exceeding their approved budget authorizations?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
21. Are blank check stocks adequately safeguarded?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
22. Is access to blank checks restricted to authorized personnel?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
23. Are controls over electronic fund transfers adequate?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
24. Is the capacity to effect or authorize electronic fund transfers appropriately restricted to personnel responsible for such transactions?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
25. Are cash transactions supported by proper documentation?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
26. Are bank statements properly reconciled on a timely basis?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
27. Are investments documented with account agreements and statements?  
\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

28. Are investments made in short-term “risk free” securities in accordance with the policies set forth in AMS Directive 443.1, “Investment of Public Funds,” and MA Instruction No. 201, “Deposits and Investments of Federal Program Funds?”

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

29. Are deposits in financial institutions either covered by approved deposit insurance or secured by collateral in accordance with 31 CFR Part 202 (Treasury Circular 176)? (Refer to MA Instruction No. 201, “Deposits and Investments of Federal Program Funds.”)

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

30. Does the collateral tracking and monitoring system include adequate controls to assure that all deposits in excess of approved deposit insurance are secured by collateral?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

31. Is interest income allocated to the fund that provided the resources (principal) unless a different allocation is prescribed by regulation (order provision)?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

32. Is interest that is paid by financial institutions on deposit accounts and investments properly allocated and debited to cash upon receipt of payment?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

33. Are accounts receivable aging schedules prepared at regular intervals?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

34. Are subsidiary accounts receivable reconciled to the general ledger?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

35. Are late-payment charges assessed on overdue accounts receivable from handlers at the rates and times and in the manner specified in the marketing order (unless an exception is authorized pursuant to MA Instruction No. 109, “Uncollectible Accounts Receivable”)?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

36. Are appropriate actions taken to collect overdue amounts owed by handlers and other debtors in accordance with MA Instruction No. 109, "Uncollectible Accounts Receivable?"

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

37. Are appropriate determinations of the collectibility of delinquent accounts made on a timely basis in accordance with MA Instruction No. 109, Chapter 1, Section VIII?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

38. Are write-offs of accounts receivable made with proper authorization after all collection actions are exhausted in accordance with MA Instruction No. 109, Chapter 1, Section VI?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

39. Are write-offs of accounts receivable, including debts discharged in bankruptcy or because of debtor insolvency, reported to the Internal Revenue Service on Form 1099-C?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

40. Are travel advances to employees made and repaid in compliance with Federal Travel Regulations, Chapter 301-Travel Allowances, Section 301-10.3 Advance of Funds?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

41. Are transactions involving prepaid expenses, deposits and miscellaneous supported by documents and explanations when appropriate?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

42. Do prepaid expenses represent unexpended portions of items paid in advance that are appropriately chargeable to future period expenses?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

43. Does the property inventory list include property at main and branch offices and mobile and portable property used away from the office?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

44. Are items on the property inventory list matched with results of the physical inventory?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

45. Is the property inventory list, including any corrections of updated items, signed or initialed by certifying custodians of the property?

- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
46. Do property records provide adequate support for items on the property inventory list?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
47. Is the balance in each fixed asset account reconciled with the property inventory?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
48. Are fixed assets identified as property of the Market Administrator with physically affixed tags, labels, decals or other means of identification for property such as computer software?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
49. Are dispositions of property made in accordance with the policies set forth in MA Instruction No. 215 (or MA Instruction No. 210 prior to 1998)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
50. Are acquisitions of property authorized, recorded, and documented in accordance with MA Instruction Nos. 207 and 215 (or MA Instruction No. 210 prior to 1998)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
51. Is depreciation of fixed assets accrued and computed in accordance with MA Instruction No. 215 (or MA Instructions No. 210 prior to 1998)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
52. Do administrative procedures and physical security measures safeguard property and protect it against unauthorized removal?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
53. Do administrative procedures assure that property is only used for business purposes?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
54. Are liabilities incurred with proper authorization and in compliance with applicable directives, laws and regulations (including marketing order provisions)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

55. Are subsidiary accounts payable reconciled to the accounts payable in the general ledger?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
56. Do inter-fund payables equal inter-fund receivables?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
57. Are the balances of accrued annual leave, compensatory time, overtime and compressed hours and/or credit hours reconciled to the values of such time earned but not used or paid, as of the yearend balance sheet date, calculated as the sum of the accrued hours of each employee multiplied by the employee's applicable hourly pay rate?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
58. Do payroll tax returns reconcile to biweekly employee payrolls for corresponding periods?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
59. Does the time and attendance and leave system include procedures to assure that the numbers of hours of annual leave credited each biweekly pay period on employees' leave records are correct for their respective leave categories based on employment status and length of service?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
60. Are the relative flows of income and expense monitored and adjusted as needed to maintain a level of operating reserves within the limits prescribed in MA Instruction No. 207?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
61. Are procedures in place to ensure that salaries on the employee payroll are authorized properly by notices of personnel action and supported by compensation schedules?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

62. Are procedures in place to ensure that salaries represent compensation for actual hours of pay earned by employees?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
63. Are procedures in place to ensure that leave applications are submitted, reviewed, approved (or disapproved) and that the hours are accounted for properly?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
64. Are procedures in place to ensure that accruals and payments for overtime, holidays, night differential (if any), annual leave, sick leave (including family friendly), administrative leave, compensatory time, compressed time, and credit hours are properly calculated, supported and authorized, in accordance with MA Instruction Nos. 203, 306 and 319?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
65. Are procedures in place to ensure that all forms regarding employee insurance, retirement, and Thrift Savings Plan (account 502) are properly prepared and submitted timely in accordance with MA Instruction No. 216?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
66. Are procedures in place to ensure that accruals and deductions for Civil Service Retirement, Federal Employees Retirement, Thrift Savings Plan, Social Security, Medicare, Federal Employees Group life Insurance, and Federal Employee Health Benefits were made in accordance with MA Instruction Nos. 211, 212, 308 and 216, as applicable?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
67. Are procedures in place to ensure that Federal, State and/or City income tax withheld was reported properly and remitted timely to the taxing authority?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
68. Are procedures in place to ensure that employee claims for reimbursement for travel are eligible in accordance with official policy, travel regulations, and reimbursement rates?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
69. Are vouchered invoices canceled to help prevent duplicate payment of expenses?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
70. Are joint costs of the administrative and marketing service funds charged to expenses in accordance with an allocation plan that is equitable to contributing handlers and producers?

- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
71. Are any written procedures, flowcharts or checklists used to guide personnel through sequential steps of the pooling process?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
72. Do pooling procedures include calculations to ascertain whether supply plants meet shipping requirements that qualify them as pool plants?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
73. Do pooling procedures include calculations to ascertain whether distributing plants meet route disposition percentages that qualify them for pool plant status?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
74. Do pooling procedures include calculations to ascertain whether reported shipments exceed diversion limitations (allowances)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
75. Do pooling procedures include the use of control totals to help ensure that quantities are accumulated correctly on reports of receipts and utilization?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
76. Do pooling procedures include the matching of milk products transferred (or diverted) between plants to assure that the quantities and classification are the same at both shipping and receiving plants (prior to allocation)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
77. Do pooling procedures include comparison of reported product types, quantities, and classification with previous reports and review of significant changes for reasonability?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

78. Do pooling procedures include either matching a handler's reported beginning inventories with the preceding month's reported ending inventories or bringing forward the preceding month's reported ending inventories as the beginning inventories on precoded reports?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
79. Do pooling procedures include reconciliation of the marketwide gross value of producer milk pooled with the marketwide utilization value of milk pooled at class prices?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
80. Is the sum of net pool obligations from handlers reconciled with the sum of net pool credits to handlers?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
81. Do pooling procedures ensure that location adjustments are calculated correctly with applicable zone differentials?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
82. Do pooling procedures ensure that the product pounds of producer milk multiplied by the applicable rate per hundredweight of administrative assessment equals the dollar amount of administrative assessment?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
83. Do pooling procedures ensure that the product pounds of nonmember producer milk multiplied by the applicable rate per hundredweight of marketing service deductions equals the dollar amount of marketing service deductions?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
84. Do pooling procedures ensure that transportation credit amounts (if any) are calculated in accordance with applicable provisions of the order?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
85. Does documentation of pooling, including coded handlers' report, computer printouts, electronically stored pool data, records of audit adjustments, etc., and related billings and payments provide an adequate audit trail and sufficient support for the pooling process?
- \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
86. Do audit procedures used by the Market Administrator's staff provide adequate monitoring of compliance by handlers with the provisions of the marketing order, including

verification of required payments and reported quantities and classification of milk products received and utilized?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

87. Does handler compliance audit workpaper documentation adequately support audit results?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

88. Does handler compliance audit planning make use of risk assessment or other methods that selectively and systematically limit the extent of auditing procedures based on considerations of materiality and likelihood of error in data reported by handlers for the purpose of optimizing audit coverage relative to available resources?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

89. Does documentation of handler compliance audit planning provide adequate support for decisions regarding the nature, timing and extent of auditing procedures?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

90. Is the history of audit adjustments considered in planning handler compliance audits?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

91. Are plant shrinkage and overage considered in planning handler compliance audits?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

92. Is rotation of auditors considered in planning handler compliance audits?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

93. Are changes in class prices and differentials between class prices considered in planning handler compliance audits?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

94. Does the information shown on the Semiannual Status of Audits and Audit Review (Form MA 8) comply with the requirements prescribed in MA Instruction No. 105?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
95. Do workpapers for handler compliance audits contain written summarizations of audit results that include comments clarifying procedures used to obtain those results and adequate explanations of significant findings and adjustments?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
96. Do written summarizations of audit results document exit conferences held with handlers' representatives, identifying the persons to whom audit results were explained and when as well as what was explained?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
97. Are source documents properly identified in handler compliance audit workpapers?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
98. Are handler compliance audit workpapers properly signed or initialed and dated by auditors and appropriate management reviewers?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
99. Are the pounds of milk shown on producer payroll reports reconciled to the pounds of producer milk shown on handlers' reports of receipts and utilization?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
100. Is production reconciled to packaging, sales, and inventories of the types of utilization that the order specifies as "used to produce" products manufactured from milk or cream?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
101. Are reported inventories substantiated by examination of physical or perpetual inventory records or by observation of physical inventory?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

102. Are the values of handlers' inventories traced or reconciled to general ledger accounts, balance sheet amounts or other financial records?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
103. Are auditing procedures used to detect possible double counting of a handler's route disposition as inventory or conversely inventory as route disposition?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
104. Are reported inventories substantiated by examination of physical or perpetual inventory records or by observation of physical inventory?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
105. Are the values of handlers' disposition of packaged fluid milk and cream products traced or reconciled to general ledger sales, income statement sales or other financial records?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
106. Are auditing procedures and analyses performed with the results of laboratory tests, chemical analyses, and measurements performed by handlers and by the Market Administrator's staff, including tests for butterfat content, and where applicable, nonfat solids, protein, lactose or other components, somatic cell count, cryoscope freezing point tests, bulk tank calibration, container fill weighing and volumetrics?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
107. Are cryoscopic freezing point tests performed when unreported reconstitution or watering of milk is suspected or is indicated by audit findings, and are further audit analyses performed with the results of such tests?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
108. Are container fill analyses used to estimate underfill or overfill that may explain overage or excessive shrinkage, respectively?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
109. Are handler compliance field audit procedures used to match inter-plant transfers of bulk fluid milk and packaged fluid milk products between shipping and receiving plants?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_
110. Are reported shipments to nonpool plants compared to records or lists showing the classification at such plants or to information from other markets that show classification?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

111. Are unregulated plants audited periodically to establish or verify the type(s) of products manufactured and the volume or capacity of such facilities for the purpose of classifying shipments from pool plants?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

112. Are shipments received from pool plants verified during unregulated plants audits?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

113. Are receipts reconciled to utilization during unregulated plant audits to determine whether utilization is sufficient to cover receipts from pool plants and whether any shipments from an unregulated plant to another location may affect the classification of shipments from pool plants?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ N/A \_\_\_\_\_

- End of Questionnaire -

AMS:DA:OB:TGSmith:12/09/99