STATE OF CALIFORNIA
DEPARTMENT OF FOOD AND AGRICULTURE
MARKETING BRANCH

CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

MANUAL FOR PERFORMING AGREED UPON PROCEDURES FOR CALIFORNIA AGRICULTURAL MARKETING PROGRAMS

Version 2010.01
Effective: November 1, 2010

Manual for Performing Agreed Upon Procedures of California Agricultural Marketing Programs

Questions regarding the content of this manual, the conduct of the agreed upon procedures, preparation of the audit report or its distribution should be directed to the Chief of the Marketing Branch at the Department of Food and Agriculture at 1220 N Street, Sacramento, CA 95814, telephone (916) 341-6005.

Table of Contents

Section 1. Introduction

This manual shall be used in the performance of the agreed upon procedures of California agricultural marketing programs on behalf of the Department of Food and Agriculture. This is the original version (v. 2010.01) of this manual and shall be used to review records of transactions from October 1, 2009 until such time as the manual is amended. This manual can be accessed on the Internet at:

www.cdfa.ca.gov/mkt/mkt/pdf/2010.1101ManualforPerformingAgreedUponProcedures

The California Department of Food and Agriculture (department) oversees the administration of many agricultural marketing programs commonly referred to as advisory boards, agreements, councils and commissions.

Each of these programs is administered under either regulation (marketing order or agreement) or by statute (council or commission law). Marketing orders and agreements made effective by the department are issued under the authority granted in the California Marketing Act. The Marketing Act and each of the council and commission laws are part of Divisions 21 and 22 of the California Food and Agricultural Code (Code).

These marketing programs exist to address a wide variety of marketing problems that exist for those that grow, distribute or process a given commodity. These problems may warrant research on production, harvest or transportation of a commodity, means by which supply and demand for a commodity can be better aligned, consumer education regarding proper or new uses of a commodity or establishing and maintaining new markets (both domestic and international) for a commodity.

All California agricultural marketing programs are primarily funded by mandatory assessments or fees collected from producers, shippers and/or processors of the commodity concerned. Additionally, programs may receive funding by participating in various international marketing programs administered by the United States Department of Agriculture (USDA). The assessments imposed by marketing programs are mandated by state law. They are "public funds" because the police (taxing) powers of the state are exercised to collect the funds. This means that the expectations and obligations associated with use of all public or government funds apply to the use of assessment funds collected by marketing programs.

The enabling laws within Divisions 21 and 22 of the Code each require financial audits to be completed either once every two years (Marketing Act and council laws) or annually (commission laws). Department policy requires that all Marketing Act boards and agreements and all councils shall arrange for a financial audit to be performed annually. These audits must be performed by department's audit unit, the Department of Finance or by a CPA firm selected by the board of directors and approved, or concurred in, by the department.

As of the effective date of this Manual, each board of directors shall determine, subject to approval by the department, whether the agreed upon procedures for its marketing program will be conducted by:

1. The department's Audit Office
2. The Department of Finance's Office of State Audits and Evaluation (OSEA)
3. A CPA firm other than the firm that performs its annual financial audit
4. The CPA firm that performs the program's financial audit.

A. Definitions of Terms Used in this Manual
    1. *Accounting Guidelines and General Rules* means the Accounting Guidelines and General Rules *to Govern the Handling of Fiscal Matters Pertaining to California Division 21 and 22 Agricultural Marketing Programs* issued by the department effective October 1, 2009
    2. *Auditee* means the advisory board, agreement, council or commission operating under the authority granted in Divisions 21 or 22 of the Food and Agricultural Code.
    3. *Auditor* means the state auditor or CPA that meets the general standards specified in general accepted government auditing standards (GAGAS). The term auditor does not include an internal auditor within the program being audited.
    4. *Finding means* variances from recommendations provided in the *Accounting Guidelines and General Rules* or a program's internal policies and procedures as observed during the agreed-upon procedures which will be included in the attest report. An auditor should present the results of applying agreed-upon procedures to specific subject matter in the form of findings. The auditor should not provide negative assurance about whether the subject matter or the assertion is fairly stated based on the criteria. The auditor should report all findings from application of the agreed-upon procedures. The concept of materiality does not apply to

findings to be reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. Any agreed-upon materiality limits should be described in the auditor's report.

5. *Corrective action* means action taken by the auditee that:
    1. Corrects identified findings;
    2. Produces recommended improvements; or
    3. Demonstrates that audit findings are either invalid or do not warrant auditee action.
6. *Department* means the California Department of Food and Agriculture
7. *Financial audit* means an audit performed to attest to the fairness and accuracy of the financial statements issued by the auditee.
8. *Agreed upon procedures (AUP)* means an engagement in which the auditor is engaged by a department to issue a report of findings based on specific procedures performed on subject matter.
9. *GAGAS* means generally accepted government auditing standards issued by the comptroller General of the United States.
10. *Generally accepted accounting standards* has the meaning specified in generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA).
12. *Internal Control* means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
    a) Effectiveness and efficiency of operations;
    b) Reliability of financial reporting; and
    c) Compliance with applicable laws and regulations.
13. *Internal Policies and Procedures* means written policies and procedures adopted by the board of directors for a marketing program that includes, but is not limited to, internal policy manuals, bylaws, enforcement procedures, election procedures, personnel policies and procedures and accounting procedures.
14. *Marketing Programs* means any of the following:
    a) Marketing order or agreement (regulation) established under the authority of the California Marketing Act and commonly referred to as advisory boards (Division 21 of the Code)
    b) Council (statute) established under an individual council law (Division 22 of the Code)
    c) Commission (statute) established under individual commission law (Division 22 of the Code).

15. *Materiality* means the AICPA standards that require the auditor to apply the concept of materiality appropriately in planning and performing the audit. Additional considerations may apply to GAGAS financial audits of marketing programs operating with public funds. For example, in audits performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.
16. *Policy Manual for Marketing Programs* means the *Policy Manual for Marketing Orders, Councils, Agreements and Commissions, Version 4* issued by the department in 2006.
17. *Political Reform Act* means Chapter 7, Title 9 of the California Government Code (§ 87100 et seq.).

B. Qualification of Auditors

1. Each agreed upon procedures engagement shall be performed by a certified public accountant (CPA) licensed currently by the California Board of Accountancy selected by a program's board of directors and approved or concurred in by the department.

2. Auditors must have a working knowledge of the *Government Auditing Standards*, AICPA attestation standards, the *Accounting Guidelines and General Rules*, the *Policy Manual for Marketing Orders, Councils, Agreements and Commissions,* and the applicable statutes within the California Food and Agricultural Code.

C. Attestation Standards

The agreed upon procedure engagement will be conducted in accordance with attestation standards established by AICPA. The general, fieldwork, and reporting standards for attestation engagements as established in *SSAE Hierarchy*, together with interpretive guidance regarding their application, should be followed by the auditor in performing and reporting on agreed-upon procedures engagements.

D. Agreed Upon Procedures - Nature, Timing, and Extent of Procedures

1. The objective of the engagement is to determine the program's compliance with the California Department of Food & Agriculture (CDFA) Accounting Guidelines and General Rules, effective October 1, 2009 and the program's internal written policies and procedures.

2. The agreed upon procedures engagement will be performed annually. It is intended that Programs will undertake this assessment in conjunction with their annual financial audit.

3. The primary areas of focus of the agreed upon procedures engagement are as follows:

   a. All travel, lodging, meals, and entertainment expense accounts

   b. Employee use of Program-owned vehicles

   c. Financial transactions between entities

   d. Contracts

   e. Assessment of the following internal controls:

      i. Oversight and the general ledger
      ii. Bank reconciliations
      iii. Safety of property
      iv. Cash receipts
      v. Cash disbursements
      vi. Documentation for travel, lodging, meals, and entertainment expenses

4. The auditor is required to prepare an agreed upon procedures report detailing procedures performed and results of procedures. (See Section 4.)

Section 2. Detail of Procedures to be Performed

A. Travel, Lodging, Meals, and Entertainment Expenses

Programs shall make the most effective use of assessment-payer funds. Costs of travel, meals and lodging shall be managed closely to ensure compliance with program requirements.

Procedure to be Performed: Select a sample of expenditures from travel, lodging, meals, and entertainment expense accounts including expenses billed to a master billing account to ensure that expenses were made in accordance with Section IV, *Purchases and Invoices*, and Section V, *Travel, Entertainment, and Related Expenses*, of the CDFA Accounting Guidelines and General Rules and a program's internal policies and procedures.

B. Employee Use of Program-Owned Vehicles

Program-owned or leased vehicles shall be used in accordance to written policies and procedures adopted by the Program's Board of Directors.

Procedure to be Performed: Determine that the value of personal use of Program-owned or leased vehicles are in accordance with IRS regulations. The value should be included in taxable income as reported in from W-2 to the IRS and each driver shall be responsible for the payment of income taxes thereon. Each driver shall also be responsible for maintaining a personal mileage log and reporting non-business mileage as personal use.

C. Financial Transactions between Entities

For many marketing programs, staff and office resources are also dedicated to managing other entities on behalf of assessment payers. These entities are commonly industry foundations or associations and are not overseen by the department unless marketing program funds are directed to the entity. A distinction must be made between program staff managing such ancillary entities and management services firms that manage multiple marketing programs under contract. The nature of financial transactions between a Program and related entities such as a political action committee or other affiliated entity should be documented in a memorandum of understanding.

Procedure to be Performed: 1) Determine the mission of each ancillary organization; 2) Review the accounting systems and procedures to ensure an adequate firewall exists between the marketing program's books and those for other organizations; 3) Verify that a memorandum of understanding exists between the marketing program and ancillary organizations to share administrative costs and that documentation exists to justify proper proration of such costs; 4) Select a sample of financial transactions between related entities to ensure they were made in compliance with the memorandum of understanding; 5) Verify that no conflicts of interest existed between management and the ancillary organization.

D. Contracts

Programs are required to have internal controls specific to contracting, and should incorporate common features which may include, but are not limited to: documentation, oversight, and equity within the contracting process, independent of the requirements of the Public Contracts Code. Although rote application of the Public Contracts Code is not applicable to the programs, the programs are still obligated to fulfill other requirements of public accountability, transparency and ethics in their operations to eliminate favoritism, fraud and corruption in awarding of contracts.

Procedure to be Performed: Review and gain an understanding of the marketing program's policies and procedures for purchasing and contracts to determine whether the marketing program had adequate contracting processes. Select a sample of contracts to ensure that contracts were made in accordance with the Accounting Guidelines for Contracts and Section IV, Purchases *and Invoices*, of the CDFA Accounting Guidelines and General Rules.

If a program has not adopted written policies and procedures regarding the contracting process, the auditor should report that as a finding. The board of directors for that program should adopt a set of policies concerning contracting processes as soon as practicable.

E. Assessment of Internal Controls

Prudent accounting and business practices require an organization to establish and maintain a system of internal controls. These controls provide reasonable assurance to the organization and to its auditors that assets are safeguarded, revenues are properly collected and accounted for, transactions are executed with proper authorization, accounting data are generated properly, and timely and accurate financial information is prepared.

Procedures to be Performed: Internal controls may be assessed as part of the Program's financial audit. For purposes of the agreed upon procedures engagement, the auditor should assess the Program's current internal control structure in relation to the key controls identified in the CDFA Accounting Guidelines and General Rules for the following areas:

i. Oversight and maintenance of the general ledger
ii. Bank reconciliations
iii. Safety of property
iv. Cash receipts
v. Cash disbursements
vi. Documentation of travel, lodging, meal, and entertainment expense guidelines

If not performed as part of the Program's financial audit, the auditor should gain an understanding of the Program's internal controls surrounding the above areas and determine if they are in line with the CDFA Accounting Guidelines and General Rules. A sample transaction of each internal control area should be verified to ensure the Program's key controls are appropriate.

Section 3. Sampling Methodology

Audit sampling is "the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class. Use of sampling is widely used in auditing practices. In order to use sampling, each item in a population must have an equal chance of being selected. If all items have an equal chance of being selected, then any findings of the sample can be extrapolated to the population of the account balance or classes. Where the item selected or the supporting documentation is not available to the auditor, the auditor should generally treat the items as a finding or determine possible alternative procedures.

When selecting transactions for testing for the agreed upon procedures, the auditor should use professional judgment to select a sample that is representative of the population and in line with authoritative standards. Sampling guidance provided by AICPA suggests the following based on sampling in test of controls:

Sampling Table Based on Population Size - 90% Confidence Level

Population Size	**Sample Size**		
> 200	25	40	60
100 - 200	22	35	50
< 100	20	30	45
Number of Deviations	**Control Risk Assessment**		
0	Moderate	Low	Low
1	High	Moderate	Low
2	High	High	Moderate
3	High	High	Moderate

Sampling Table for Infrequently Operating Controls

Control Frequency and Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2 – 4
Semimonthly (24)	3 – 8
Weekly (52)	5 – 9

Another resource, the October 2009 version of the Government Auditing Standards ("Yellow Book") suggests that some significant controls or instances, or both, of compliance do not occur frequently (for example, submitting a required report). Small populations, for purposes of this chapter, are defined as populations of fewer than 250 items.

For populations up to 52 items, see the table above. For populations between 52 and 250 items, a rule of thumb some auditors follow is to test a sample size of approximately 10 percent of the population, but the size is subject to professional judgment, which would include specific engagement risk assessment considerations.

Section 4. Reporting

A. Required Elements

In accordance with attestation standards established by the American Institute of Certified Public Accountants, the auditor's report on agreed upon procedures should be in the form of procedures and findings.

In preparing audit findings, care should be taken regarding audits of commissions for transactions that exceed CDFA recommended allowances but that are within limits set in internal written policies and procedures adopted by the commission's board of directors and made known to affected stakeholders. In such instances, the audit report should note that the expenditure exceeds the Department's recommended allowance, but is within allowances set by the commission's internal written policies and procedures.

B. Distribution of the Initial Audit Report and Publication of the Final Report

The initial audit report should be mailed to the Chairperson of the marketing program's board of directors with a copy to CEO of the program, the Director of the Division of Marketing Services, Department of Food and Agriculture, the Department's General Counsel and the Chief of the Department's Marketing Branch. The marketing program will be given 30 days to provide a written response to the initial audit report. The response should be mailed to the auditor with a copy provided to the department staff listed above. An extension to the 30-day response period may be granted if needed to allow time for the marketing program's board of directors to meet and review the initial audit report. Once the marketing program's response has been received by the auditor and department staff, the department may submit its own statement regarding the report and/or the program's written response. The auditor will then consolidate the written response(s) and issue the final report.

Until the report is in final form, it shall be kept confidential. Once finalized, the report should be addressed to the Director of the Division of Marketing Services with copies to the others named above and posted on the Governor's transparency website.

C. Report Format

To the extent possible, auditors should use the report format as shown in Appendix A. This will ensure more consistency between reports issued by multiple auditing firms.

Questions regarding the content of this manual, the conduct of the agreed upon procedures, preparation of the audit report or its distribution should be directed to the Chief of the Marketing Branch at the Department of Food and Agriculture at 1220 N Street, Sacramento, CA 95814, telephone (916) 341-6005.

APPENDIX "A"

SAMPLE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To: ___________ Chair,
_________ Marketing Program

We have performed the procedures enumerated below, as specified in the Manual for Performing Agreed Upon Procedures for California Agricultural Marketing Programs, solely to assist the specified parties in evaluating _________ Program's compliance with the California Department of Food & Agriculture (CDFA) *Accounting Guidelines and General Rules,* effective October 1, 2009, and the program's internal policies and procedures. Management is responsible for the Program's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed Upon Procedures Performed

1. Review the Program's compliance with the California Department of Food & Agriculture's (CDFA) Accounting Guidelines and General Rules, effective October 1, 2009 and the program's internal written policies and procedures, for the following accounts and transactions during the year ended June 30, 20xx:
    a. Account 7000 - Travel & Lodging
    b. Account 7001 - Meals & Entertainment
    c. Employee use of Program-Owned vehicles
    d. Financial Transactions between Entities
    e. Contracts
2. Assess the Commission's current internal control structure in relation to the CDFA *Accounting Guidelines and General Rules*, focusing on the following internal control transaction cycles as defined by CDFA:

a. General ledger and bank reconciliation oversight
b. Safety of property
c. Cash receipts
d. Cash disbursements
e. Documentation for travel, lodging, and meals expenses

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance with the Department's Accounting Guidelines and General Rules and the program's internal policies and procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Detailed results of our procedures and findings are described in Appendix "A" to this report.

This report is intended solely for the information and use of the California Department of Food and Agriculture, the ____ Program's board of directors and management of the Program and is not intended to be and should not be used by anyone other than these specified parties.

Audit Firm
Report Date

SAMPLE Appendix "A"

**___________ Marketing Board, Council or Commission
Agreed Upon Procedures**

<u>Details of Procedures Performed:</u>

1. In order to review compliance with California Department of Food & Agriculture (CDFA) Accounting Guidelines and General Rules and the program's internal policies and procedures for the period of July 1, 20xx – June 30, 20xx:
    a. We selected 60 out of approximately 230 transactions from general ledger account 7001 – Travel & Lodging for testing.
    b. We selected 50 out of approximately 160 transactions from general ledger account 7002 – Meals & Entertainment for testing.
    c. We determined if the Program was properly reporting employee vehicle use and tax by:
        i. Ensuring that the employees using Program-owned vehicles were following the Program's automobile policy established January 20xx.
        ii. Reviewing the vehicle use calculation and agreeing the amount to employee's W-2.
    d. We determined if any inappropriate financial transactions were occurring between the Program and the related entities by:
        i. Reviewing all financial transactions between the Program and related entity to determine they met the requirements of the Memorandum of Understanding dated January 31, 20xx. We then selected transactions for testing.
    e. We selected 5 out of 25 contracts for review and testing.
2. In order to assess the Program's current internal control structure, we identified key controls of each cycle listed below and as described in the CDFA *Accounting Guidelines and General Rules*, and compared the key controls to the Program's current internal control procedures as documented in the Program's Accounting Policies and Procedures Manual. We also performed a verification of each key control by selecting a sample item to confirm the process.
    a. General ledger and bank reconciliation oversight
    b. Safety of property

c. Cash receipts

d. Cash disbursements

e. Travel, lodging, and meals

Results of Procedures Performed:

1. Transaction Testing

   a. **Account 7001 - Travel & Lodging:** We noted 2 out of the 60 transactions tested did not include evidence of approvals on the reimbursement request forms. We noted 1 transaction out of the 60 was missing an original hotel receipt to support a reimbursement request. Of the 60 transactions tested, we randomly selected 10 CEO expenses. From the CEO expenses tested, we noted 2 transactions did not include the approval of the CEO's expenses by a member of the Board of Directors.

   b. **Account 7002 - Meals & Entertainment:** We noted 2 out of the 50 transactions tested were missing original receipts to support reimbursement requests. Of the 50 transactions tested, we randomly selected 10 CEO expenses. From the CEO expenses tested, we noted 1 transaction did not include the approval of the CEO's expenses by a member of the Board of Directors.

   c. **Vehicle use and tax:** We noted that one employee using a Program-owned vehicle did not maintain a mileage log as required by IRS guidelines. We noted the Program's vehicle use calculation agreed to the employees' W-2 forms.

   d. **Financial transactions between entities:** Financial transactions between the Program and the related entity were in compliance with the Memorandum of Understanding. We did not identify any inappropriate financial transactions between the Program and the related entity.

   e. **Contracts:** We noted no such findings in relation to contracts. We noted they were made in line with the CDFA Accounting Guidelines and General Rules.

2. Internal Control Recommendations

   a. **General ledger and bank reconciliation oversight:** No findings noted.

   b. **Safety of property:** Per the CDFA *Accounting Guidelines and General Rules* page 18, a contract between the Program and the employee should be generated for assets purchased by the Program for home use. Per discussion with the CEO, the Program currently inventories these items; however a policy does not exist and contracts are not used. We recommend the Program adopt a policy for the use of telecommuting equipment and that contracts be established between the Program and employee for home use of the equipment.

c. **Cash receipts:** No findings noted.

d. **Cash disbursements:** No findings noted.

e. **Documentation for travel, lodging, and meal expenses:** Per the CDFA *Accounting Guidelines and General Rules* page 45, the Program should have policies and procedures in place for the reimbursement of moving, relocation, and interview candidate expenses. Per discussion with the CEO, the Program currently does not have such a policy. We recommend the Program develop policies to address moving household effects, repayment of moving and relocation expenses, and travel reimbursements of applicants called for interview.