



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
DEPARTMENT OF FOOD AND
AGRICULTURE
YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT OF THE
OFFICE OF AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

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FINANCIAL AUDIT REPORT
DEPARTMENT OF FOOD AND AGRICULTURE
YEAR ENDED JUNE 30, 1978

SEPTEMBER 1979



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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RICHARD ROBINSON
CHAIRMAN

September 12, 1979

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Department of Food and Agriculture, year ended June 30, 1978.

The auditors are Curt Davis, CPA; Michael C. Dendorfer, CPA; Jeffrey A. Winston; Gus M. Demas; Thomas R. DeWitt, Jr.; Philip J. Jelicich; and Glen Ostapeck.

Respectfully submitted,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In response to a Resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Department of Food and Agriculture. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

These are the principal objectives of the Department of Food and Agriculture:

- To serve the citizens of California by promoting and protecting California agriculture in the interest of public health, safety, and welfare;
- To maintain a viable food system which assures that an abundant supply of wholesome food is delivered to domestic and export markets;
- To provide leadership in the development of policy on issues pertaining to California food and agriculture;
- To preserve and protect the use of the State's natural resources to meet the present and future requirements for food and fiber;

- To provide effective and uniform administration of the Food and Agriculture Code and other laws over which the department has jurisdiction;
- To serve the citizens of California by assuring that equity prevails in the commercial exchange of goods where value is determined by weight or measure.

The Department of Food and Agriculture's programs are supported by license fees, assessments, and taxes expended for enforcement of the law under which they are received; appropriations from the State General Fund; and income from surplus money investments.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

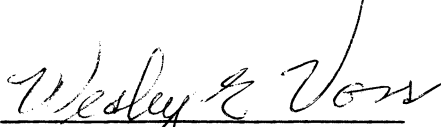
We have examined the combined balance sheet of the Department of Food and Agriculture as of June 30, 1978 and the related statements of revenues, expenditures, and changes in fund balance and operating clearing for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Department of Food and Agriculture at June 30, 1978 and results of operations and changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying financial statements captioned "Total - Memorandum Only" for June 30, 1978 are not necessary for a fair presentation of the financial statements but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statements of revenues, expenditures, and changes in fund balance and operating clearing for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination, we performed tests of compliance with Revenue Sharing and Antirecession Fiscal Assistance Acts and regulations as required by Sections II.C.3 and III.C.3 of the Audit Guide and Standards for Revenue Sharing and Antirecession Fiscal Assistance Fund Recipients issued by the Office of Revenue Sharing, U. S. Department of the Treasury. Based on these procedures, we noted no instance of noncompliance with the regulations.


WESLEY E. WOSS
Assistant Auditor General

Date: March 9, 1979

Staff: Curt Davis, CPA
Michael C. Dendorfer, CPA
Jeffrey A. Winston
Gus M. Demas
Thomas R. DeWitt, Jr.
Philip J. Jelicich
Glen Ostapeck

DEPARTMENT OF FOOD AND AGRICULTURE

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978
(With Unaudited Amounts for 1977)

ASSETS	Governmental Fund Types		Fiduciary Fund Types	Account Group	Total (Memorandum Only)	
	General	Special Revenue Agriculture	Trust and Agency	General Fixed Assets	June 30, 1978	June 30, 1977
Cash	\$ 662,952	\$ 3,123,470	\$1,451,637	\$ --	\$ 5,238,059	\$ 4,870,096
Deposits in Surplus Money Investment Fund (Note 4)	--	8,413,000	--	--	8,413,000	6,479,000
Accounts Receivable	3,342,247	3,460,825	11,145	--	6,814,217	4,720,535
Allowance for Deferred Accounts Receivable	(8,835)	(1,780)	--	--	(10,615)	(4,439)
Due from Surplus Money Investment Fund	--	411,952	--	--	411,952	261,622
Due from Other Funds	--	85,949	--	--	85,949	--
Prepayments to Other Funds	192,556	232,692	--	--	425,248	434,662
Expense Advances to Employees	62,886	56,788	556	--	120,230	73,337
Interfund Building and Construction Loans Receivable (Note 3)	--	3,203,263	--	--	3,203,263	2,140,128
Advances to Architecture Revolving Fund	--	--	1,152,285	1,252,925	2,405,210	210,300
Land	--	--	231,382	32,040	263,422	274,354
Improvements	--	--	3,380,050	3,860,232	7,240,282	7,319,460
Equipment	--	--	13,718	6,126,056	6,139,774	5,558,208
Total Assets	\$4,251,806	\$18,986,159	\$6,240,773	\$11,271,253	\$40,749,991	\$32,337,263
LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY						
Liabilities:						
Accounts Payable	\$2,439,752	\$2,092,305	\$ 125,772	\$ --	\$ 4,657,829	\$ 3,914,699
Interfund Building and Construction Loans Payable (Note 5)	--	--	3,203,263	--	3,203,263	2,140,128
Due to Milk Pooling Plan Participants (Note 6)	--	--	991,671	--	991,671	959,329
Due to Other Funds	--	89,155	556	--	89,711	2,295,612
Prepayments from Other Funds	232,692	--	--	--	232,692	349,031
Revenues Collected in Advance	163	931,248	--	--	931,411	800,194
Reimbursements Collected in Advance	243,035	--	--	--	243,035	--
Uncleared Collections	28,333	720,030	--	--	748,363	1,123,200
Total Liabilities	2,943,975	3,832,738	4,321,262	--	11,097,975	11,582,193
Encumbrances Outstanding	960,145	591,248	--	--	1,551,393	--
Fund Equity:						
Investment in General Fixed Assets	--	--	13,542	10,018,328	10,031,870	9,540,414
Fund Balance:						
Reserved for Interfund Building and Construction Loan	--	3,203,263	--	--	3,203,263	2,140,128
Reserved for Construction	--	--	1,152,285	1,252,925	2,405,210	210,300
Unreserved:						
Designated for Special Trust	--	--	97,903	--	97,903	68,072
Designated for Marketing Trust Administrative Services	--	--	41,778	--	41,778	54,712
Designated for Distribution to Counties	--	1,400,000	--	--	1,400,000	68,324
Designated for Farm Products Trust	--	339,069	--	--	339,069	--
Designated for Continuing Appropriations	--	2,039,234	--	--	2,039,234	1,206,547
Undesignated	--	7,580,607	614,003	--	8,194,610	8,495,053
Operating Clearing (Note 7)	347,686	--	--	--	347,686	(1,028,480)
Total Fund Equity	347,686	14,562,173	1,919,511	11,271,253	28,100,623	20,755,070
Total Liabilities, Encumbrances Outstanding, and Fund Equity	\$4,251,806	\$18,986,159	\$6,240,773	\$11,271,253	\$40,749,991	\$32,337,263

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FOOD AND AGRICULTURE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE AND OPERATING CLEARING
 GOVERNMENTAL FUND TYPES AND FIDUCIARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
 (With Unaudited Amounts for 1977)

	Governmental Fund Types		Fiduciary Fund Types		Total (Memorandum Only)	
	General	Special Revenue	Building	Special Deposit	June 30, 1978	June 30, 1977
		Agriculture				
Revenues: (Note 2)						
Licenses, Taxes, and Fees	\$ 58,085	\$28,736,465	\$ --	\$ --	\$28,794,550	\$24,293,442
Income from Surplus Money	--	--	--	--	--	--
Investment Fund	--	534,864	--	--	534,864	505,211
Rental of State Property	--	--	560,545	--	560,545	557,971
Miscellaneous Revenues	6,328	245,197	--	--	251,525	204,069
Total Revenues	64,413	29,516,526	560,545	--	30,141,484	25,560,693
Other Sources:						
Support Appropriation	25,600,495	--	--	--	25,600,495	18,049,907
Reimbursements (Note 8)	19,234,341	4,882,987	--	11,238	24,128,566	21,573,083
Assessments	--	--	--	735,057	735,057	779,467
Prior-Year Adjustment	--	922,801	--	--	922,801	2,270,400
Total Sources	44,899,249	35,322,314	560,545	746,295	81,528,403	68,233,550
Expenditures: (Note 2)						
Current:						
Personal Services	27,263,735	16,566,168	--	535,694	44,365,597	41,417,385
Operating Expense and Equipment	12,549,134	9,854,281	419,407	193,749	23,016,571	20,341,817
Local Assistance	3,558,424	4,571,006	--	--	8,129,430	5,043,573
Capital Outlay	89,895	--	82,650	--	172,545	100,163
Board of Control Claims	--	--	--	--	--	175,201
Prior Year:						
Prior-Year Adjustment	61,895	--	60,089	--	121,984	--
Total Expenditures	43,523,083	30,991,455	562,146	729,443	75,806,127	67,078,139
Excess of Sources Over (Under) Expenditures	1,376,166	4,330,859	(1,601)	16,852	5,722,276	1,155,411
Fund Balance - July 1	--	10,231,314	1,767,889	136,371	12,135,574	10,383,825
Operating Clearing - July 1	(1,028,480)	--	--	--	(1,028,480)	(432,142)
Fund Balance - June 30	--	\$14,562,173	\$1,766,288	\$153,223	\$16,481,684	\$12,135,574
Operating Clearing - June 30	\$ 347,686	--	--	--	\$ 347,686	\$(1,028,480)

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FOOD AND AGRICULTURE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE AND OPERATING CLEARING - BUDGET AND ACTUAL
 GENERAL AND SPECIAL REVENUE FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1978

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget As Adjusted	Actual	Variance- Favorable (Unfavorable)	Budget As Adjusted	Actual	Variance- Favorable (Unfavorable)	Budget As Adjusted	Actual	Variance- Favorable (Unfavorable)
Revenues: (Note 2)									
Licenses, Taxes and Fees	\$ 77,660	\$ 58,085	\$ (19,575)	\$26,071,148	\$28,736,465	\$2,665,317	\$26,148,808	\$28,794,550	\$ 2,645,742
Income from Surplus Money									
Investment Fund	--	--	--	604,687	534,864	(69,823)	604,687	534,864	(69,823)
Miscellaneous Revenues	280	6,328	6,048	214,212	245,197	30,985	214,492	251,525	37,033
Total Revenues	77,940	64,413	(13,527)	26,890,047	29,516,526	2,626,479	26,967,987	29,580,939	2,612,952
Other Sources:									
Support Appropriation	32,977,448	25,600,495	(7,376,953)	--	--	--	32,977,448	25,600,495	(7,376,953)
Reimbursements (Note 8)	23,880,306	19,234,341	(4,645,965)	4,214,250	4,882,987	668,737	28,094,556	24,117,328	(3,977,228)
Prior-Year Adjustment	--	--	--	--	922,801	922,801	--	922,801	922,801
Total Sources	56,935,694	44,899,249	(12,036,445)	31,104,297	35,322,314	4,218,017	88,039,991	80,221,563	(7,818,428)
Expenditures: (Note 2)									
Current:									
Personal Services	30,072,198	27,263,735	2,808,463	18,002,332	16,566,168	1,436,164	48,074,530	43,829,903	4,244,627
Operating Expense and									
Equipment	15,413,306	12,549,134	2,864,172	10,685,942	9,854,281	831,661	26,099,248	22,403,415	3,695,833
Local Assistance	10,174,900	3,558,424	6,616,476	4,170,402	4,571,006	(400,604)	14,345,302	8,129,430	6,215,872
Capital Outlay	272,350	89,895	182,455	--	--	--	272,350	89,895	182,455
Hydrilla Weed Control	925,000	--	925,000	--	--	--	925,000	--	925,000
Prior Year:									
Prior-Year Adjustment	--	61,895	(61,895)	--	--	--	--	61,895	(61,895)
Total Expenditures	56,857,754	43,523,083	13,334,671	32,858,676	30,991,455	1,867,221	89,716,430	74,514,538	15,201,892
Excess of Sources Over (Under) Expenditures	77,940	1,376,166	1,298,226	(1,754,379)	4,330,859	6,085,238	(1,676,439)	5,707,025	7,383,464
Fund Balance - July 1		--			10,231,314			10,231,314	
Operating Clearing - July 1		(1,028,480)			--			(1,028,480)	
Fund Balance - June 30		--			\$14,562,173			\$14,562,173	
Operating Clearing - June 30		\$ 347,686			--			\$ 347,686	

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FOOD AND AGRICULTURE
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS

FOR FISCAL YEAR ENDED JUNE 30, 1978

MILK POOLING SETTLEMENT FUND

ASSETS	<u>Balance July 1, 1977</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1978</u>
Cash	<u>\$959,329</u>	<u>\$15,720,935</u>	<u>\$15,688,593</u>	<u>\$991,671</u>
LIABILITIES				
Due to Milk Pooling Plan Participants (Note 6)	<u>\$959,329</u>	<u>\$15,720,935</u>	<u>\$15,688,593</u>	<u>\$991,671</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FOOD AND AGRICULTURE

COMBINING BALANCE SHEET
FIDUCIARY FUND TYPES

JUNE 30, 1978
(With Unaudited Amounts for 1977)

ASSETS	Fiduciary Fund Types			Totals (Memorandum Only)	
	Building	Special Deposit	Milk Pooling Settlement	June 30, 1978	June 30, 1977
Cash	\$ 256,421	\$203,545	\$991,671	\$1,451,637	\$1,282,726
Accounts Receivable	172	10,973	--	11,145	6,646
Expense Advances to Employees	--	556	--	556	200
Advances to Architecture Revolving Fund	1,152,285	--	--	1,152,285	6,500
Land	231,382	--	--	231,382	231,382
Improvements	3,380,050	--	--	3,380,050	3,380,050
Equipment	176	13,542	--	13,718	13,763
Total Assets	\$5,020,486	\$228,616	\$991,671	\$6,240,773	\$4,921,267
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts Payable	\$ 50,935	\$ 74,837	\$ --	\$ 125,772	\$ --
Interfund Building and Construction Loans Payable (Note 5)	3,203,263	--	--	3,203,263	2,140,128
Due to Other Funds	--	556	--	556	200
Due to Milk Pooling Plan Participants (Note 6)	--	--	991,671	991,671	959,329
Total Liabilities	3,254,198	75,393	991,671	4,321,262	3,099,657
Fund Equity:					
Investment in General Fixed Assets	--	13,542	--	13,542	13,587
Fund Balance:					
Reserved for Construction	1,152,285	--	--	1,152,285	6,500
Unreserved:					
Designated for Special Trust	--	97,903	--	97,903	68,072
Designated for Marketing Trust					
Administrative Services	--	41,778	--	41,778	54,712
Undesignated	614,003	--	--	614,003	1,678,739
Total Fund Equity	1,766,288	153,223	--	1,919,511	1,821,610
Total Liabilities and Fund Equity	\$5,020,486	\$228,616	\$991,671	\$6,240,773	\$4,921,267

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF FOOD AND AGRICULTURE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Department of Food and Agriculture. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local government as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into Governmental Fund Types, Fiduciary Fund Types, and Account Groups. The Department of Food and Agriculture accounts for only its portion of the two fund-type categories. The State Controller maintains the central accounts for the two fund-type categories and annually publishes consolidated fund statements.

GOVERNMENTAL FUND TYPES

General Fund

This fund includes all financial resources not accounted for in another fund.

Special Revenue Funds

These funds are used to account for specific revenues and expenditures earmarked for particular activities. The special revenue fund for the department is the Department of Agriculture Fund.

Department of Agriculture Fund - This fund finances the activities of the department in administering laws designated to promote and protect the agricultural industry in the production and marketing of agricultural commodities.

All of the governmental fund types are maintained on the modified accrual basis of accounting. Some of the more significant elements include:

Income

Throughout the fiscal year all income including revenues, transfers, and reimbursements is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures, including encumbrances outstanding against budget appropriations for which no goods or services have been received.

Liabilities

Retirement Plan - Regular employees are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year totalled \$3,641,152.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time benefits are used rather than when they are earned.

FIDUCIARY FUND TYPES

These funds are used to account for assets held by a governmental unit as a trustee or as an agent for individuals or private organizations or other governmental units. These are included in the Fiduciary Fund Types:

Department of Agriculture Building Fund - This fund provides for purchasing and acquiring real property; constructing and equipping buildings; and improving new and existing property, buildings, and equipment. The activities of this fund are financed by loans from the Department of Agriculture Fund and by rental income. The Department of Food and Agriculture is responsible for the management and accountability of the building's facilities during the life of the loans. Any excess monies remaining after using rental income to pay operating costs are applied to the loans. When the loans are repaid, the management and accountability of the building facilities is transferred to the Department of General Services.

Special Deposit Fund

The department maintains the Special Deposit Fund to account for fees collected from marketing trust boards. The State Controller maintains separate accounts for each agency and annually publishes consolidated Special Deposit Fund Statements.

Milk Pooling Settlement Fund

The department maintains the Milk Pooling Settlement Fund to account for collections and disbursements associated with milk equalization pools. Milk equalization pools are administered by the department and authorized by Chapter 927, Statutes of 1967.

ACCOUNT GROUP

The Account Group is used to account for general fixed assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance.

2. BUDGETED REVENUES AND EXPENDITURES

Neither revenues nor the detail composition of expenditures is included in the legislative budget act. The dollars included in the columns entitled budget as adjusted are agency amounts as reflected in the Governor's Budget after allowing for any subsequent adjustments.

3. INTERFUND BUILDING AND
CONSTRUCTION LOANS RECEIVABLE

This account represents loans to the Department of Agriculture Building Fund for land purchases and building construction and repair.

4. DEPOSITS IN SURPLUS
MONEY INVESTMENT FUND

This account shows the amount of department monies invested in the Surplus Money Investment Fund. The Surplus Money Investment Fund is used to account for the monies of various funds that have been transferred for investment purposes. All earnings derived from investments of the fund are apportioned to the contributing funds. Interest due from the Surplus Money Investment Fund is accrued at June 30.

5. INTERFUND BUILDING AND
CONSTRUCTION LOANS PAYABLE

This account represents loans from the Department of Agriculture Fund for land purchases and building construction and repair. Repayment is made through collection of rents from the tenants.

6. DUE TO MILK POOLING
PLAN PARTICIPANTS

This balance represents the amount received from milk handlers which is distributed to participants of the Milk Pooling Settlement Fund.

7. OPERATING CLEARING

This account is the connecting link between the books of the department and the central fund accounts of the State Controller for the General Fund.

8. REIMBURSEMENTS

The General Fund is the accounting entity for the department's operating expenses and is reimbursed by the other departmental funds for expenses incurred. During fiscal year 1977-78, \$18,095,720 from other departmental funds was transferred to the General Fund for departmental expenses.

OTHER INFORMATION

As an integral part of our examination, we reviewed the department's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the department in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The department fully concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps