

**COOPERATIVE MILK PROCUREMENT COSTS  
NOVEMBER 5, 2018 HEARING  
BOARD STAFF TESTIMONY OF STEVEN ZALMAN**

Good Morning, my name is Steven Zalman. I am an Auditor Supervisor for the Pennsylvania Milk Marketing Board (PMMB). I have reviewed the information that the Cooperative cross section submitted on form PMMB-60C. This form is shown in Board Staff Exhibit 1. Along the top of the form there are 9 categories referred to as cost centers. The rows, lines 1 through 46 are expense categories. Except for the 9 categories along the top, this form is similar to the dealer PMMB 60 form Schedule B-2 and B-3. Each of the 6 cross section Cooperatives submitted a completed version of this form with cost amounts entered into the appropriate cells.

**Compilation of Coop Expenses**

Board Staff agrees with the compilation of expenses and pounds presented in PADC Exhibit 16, page 3, except for column 5, the Dispatch, Logistics, Hauling total pounds (25,930,612,008). It is my understanding that PADC agrees with the total pounds presented by Board Staff Exhibit 3 (25,694,420,185). Board Staff Exhibit 3 shows the total of expenses and pounds for the cross-section coops. These totals were arrived at by adding the totals of each cost center in each of the audited 60C submissions. When you add line 47 (Sub-total line) and line 48 (Allocation-Administrative) of PADC Exhibit 16, page 3, it matches the expenses column for each of the cost centers in Board Staff Exhibit 3. After making the correction in column 5, the total pounds in Line 52 of the PADC Exhibit 16, page 3, match the pounds for each cost center in Board Staff Exhibit 3.

Testimony offered by PADC could lead one to assume that verifying coop expenses and dealer expenses is a completely similar endeavor. I have made every attempt to apply similar methods and practices during these audits. They are similar to the extent that it involves verifying reported information, however, there is not yet the standardization in Coop financial records that we see with dealer records. In order to have an efficient yearly auditing process it will be necessary for the coops to adopt similar financial accounts and systems much like the dealers have.

For each cross section coop every line item of reported expenses was verified against General Ledger accounts. Often, the ledger accounts did not fit easily into the cost centers, requiring the coops to rearrange expenses in order to apply them to the appropriate cost center. Many allocations of accounts had to be made. Here again, the audit process differs from dealer audits. Dealers generally arrange their accounts according to cost centers. For example, they may have an account for “Bottling – salaries”, where their systems are designed to track personnel working in their bottling department. Each coop had different accounting systems requiring different methods of categorizing expenses. This is understandable because it is new to the cooperatives.

Line 48 represents the allocation of the General and Administrative expenses (column 9) among the 8 other cost centers. This allocation is done by taking a weighted average of the total expenses in each of the first 8 cost centers. This is similar to how dealers allocate General and Administrative expenses.

Line 49 represents hauling reimbursements. Due to the large dollar amounts in the Dispatch, Logistics, Hauling cost center, we decided it would be more representative if this

offset was subtracted from the cost center before allocating General and Administrative expenses; so this offset was moved to a line item above line 47, the sub-total line. Without making this adjustment it would have caused the Dispatch, Logistics, Hauling cost center to absorb the majority of the General and Administrative allocation. This is different than what we do with dealers.

Line 51 represents the total expenses incurred for each of the 8 cost centers.

In Line 52, the pounds in the various columns are different, because not all services are provided with respect to all pounds. Only the pounds associated with a particular service were included in the total pounds for that particular column.

There are many millions of pounds that coops buy and sell from each other. However, whether there is a profit or loss on this transferred milk was not determined. This is different than dealer audits.

### **Weighting Methods**

Since each coop has a different cost per cwt we need a method to arrive at a weighted average cost to be used to determine any mandated coop cost charge. PADC proposes two weighting methods in PADC Exhibit 16, page 1, both based on Class 1 volume. Method 1 arrives at a cost of \$.2894/cwt, and method 2 arrives at a cost of \$.2845/cwt. However, these Class 1 volumes are not reported to PMMB by each of the coops separately, so this information is not readily available, therefore these two methods would require additional reporting and administrative overhead. We therefore are proposing a different, simpler method. Board Staff Exhibit 3 presents a weighted average of the cross section using *all* pounds and calculates to a weighted average cost of \$.2678/cwt. We propose using \$.2678/cwt as the coop premium.

### **2016 and 2017 Audits**

In this hearing we are using 2016 coop expenses. If any coop costs become mandated we propose that these hearings initially be held separately from cost replacement. Since it is now November 2018, the next coop hearing could be held using calendar year 2018 expenses. Once coop auditing becomes routine we can consider including coop cost updates as part of cost replacement hearings.

Submitted September 20, 2018



**REDACTED**  
**SUBJECT TO PROTECTIVE ORDER DATED**  
**AUGUST 10, 2018**

**BOARD STAFF EXHIBIT 2**

Total of all cross section Coops

<b>Cost Center</b>	<b>Expenses</b>	<b>Pounds</b>	<b>cost/cwt</b>
Field Services	\$ [REDACTED]	[REDACTED]	[REDACTED]
Laboratory	\$ [REDACTED]	[REDACTED]	[REDACTED]
Producer Payroll	\$ [REDACTED]	[REDACTED]	[REDACTED]
Sales Invoicing	\$ [REDACTED]	[REDACTED]	[REDACTED]
Dispatch, Logistics, Hauling	\$ [REDACTED]	[REDACTED]	[REDACTED]
Calibration Services	\$ [REDACTED]	[REDACTED]	[REDACTED]
Producer Relations	\$ [REDACTED]	[REDACTED]	[REDACTED]
Customer Relations	\$ [REDACTED]	[REDACTED]	[REDACTED]
			\$ 0.2678