

3154.

**Kathy Cooper**

**From:** IRRC  
**Subject:** FW: Milk Marketing Board Proposed Regulation "Uniform System of Accounts"  
**Attachments:** Carl Herbein Comments March 23 2016.pdf

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**From:** Peter N. Calcara [<mailto:PCalcara@picpa.org>]  
**Sent:** Wednesday, August 03, 2016 1:46 PM  
**To:** James Smith  
**Cc:** [ra-pmmb@pa.gov](mailto:ra-pmmb@pa.gov); Peter N. Calcara  
**Subject:** RE: Milk Marketing Board Proposed Regulation "Uniform System of Accounts"

Mr. Smith:

I am writing on behalf of the more than 22,000 members of the Pennsylvania Institute of Certified Public Accountants (PICPA) in response to the Pennsylvania Milk Market Board (PMMB) proposed regulation, "Uniform System of Accounts" (#47-17/IRRC #3154). Founded in 1897, the PICPA membership includes practitioners in public accounting, industry, government, and education. Our members provide accounting, auditing, tax and related professional services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as Pennsylvania's largest businesses.

We endorse the comments (please see attachment) regarding the proposal provided by Carl Herbein, CPA and PICPA member, on behalf of the Pennsylvania Association of Milk Dealers, at the March 23, 2016 public hearing convened by the PMMB.

Thank you for the opportunity to review the proposed regulation.

**Peter N. Calcara, CAE** | Vice President - Government Relations  
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The opinions expressed herein are my own, and do not reflect those of the Pennsylvania Institute of Certified Public Accountants, or the Institute/Foundation's officers, members or employees.



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**Testimony of Carl D. Herbein, CPA**

**Amendment to 7 PA. Code 149**

**Uniform System of Accounts**

I am Carl D. Herbein, CPA, President and CEO of Herbein + Company, Inc. and my address is 2763 Century Blvd., Reading, PA 19610. I am presenting testimony on behalf of the Pennsylvania Association of Milk Dealers in accordance with PMMB Bulletin 1522.

**General Comments**

The timing of these proposed regulations follows the conclusion of the Over Price Premium Part II hearing (OPP II) where the Board declined to adopt a cooperative-only procurement charge payment on cooperative milk used for Class I sales. I believe the Board had good reason to decline to adopt the proposed procurement charge – the data presented was not uniformly developed, was not subject to proper allocations, was not audited and was not reliable as presented. In addition, it is not at all clear that a coop only procurement charge was ever intended by the legislature, let alone makes sense in the context of the PMMB system.

I infer that these regulations are an attempt to eliminate concerns with the financial information so in the event the cooperatives wish to petition for a cooperative-only procurement charge at some point, a potential future hearing might be streamlined to focus on policy and legal issues. I am doubtful that these proposed regulations can accomplish that. We do not know what that petition will seek and without a hearing directive regarding the scope of any potential procurement charge I cannot fully comment on whether the proposed cost centers are adequate. Just as during the OPP II hearing where we did not know until mid-hearing that the coops were seeking far more than costs that were identical to dealers, here we do not know what the data is intended to support. I cannot fully comment on the adequacy of the cost centers or the detail necessary to establish a chart of accounts specific to the cooperative cost centers. At a minimum, I can say that the proposed regulations would require a chart of accounts.

However, as I explained at the OPP II hearing, there are significant differences between cooperatives and fluid milk processors even where cooperative costs sound and look like milk dealer costs. Similarly, fluid milk plant costs that sound and look like coop costs can be different. For example, a processing milk dealer laboratory performs many services related to the manufacturing process, shelf life and finished product analysis. Also some cooperatives do not receive milk at their facilities like dealers do. Depending on the objective of the financial information this could require more regulatory guidance to properly allocate costs, to properly offset the costs using byproduct accounting and other offsets.

As I mentioned during the hearing, cooperatives perform many functions beyond procurement services for fluid milk plants and it is virtually impossible to extract those costs from categories that are similar to categories at fluid milk plants like general and administrative expenses. Even within cost categories that would seem more focused, the level of service differs among coops and fluid plants because the objectives differ among the entities and it is difficult to identify those costs associated with supplying the market and those associated with being a cooperative, which is a difference that will matter depending on the plan for the costs that would be tracked as a result of the proposed regulation.

Thus, at a minimum there is a need for very strict compliance with PMMB's System of Accounts and there is a need for guidance to the cooperatives in what is being proposed as 149.46 cooperative cost centers that will be determined by the objective of the data. But even with that, I remain concerned that this three-tiered system was not designed to specifically and separately compensate coop costs.

#### **Cooperative Expenses – Related Revenue as an Offset**

I am convinced that the cooperatives are getting their costs out of the marketplace. I reviewed, as I often do and as my colleagues often do in checking the calculation of the over price premium the invoices and calculations of premiums paid on Pennsylvania produced, processed, and sold milk for milk dealers purchasing cooperative milk. It is widely understood, and observed by me that the normal cooperative to dealer transaction includes a handling charge depending on market circumstances. This

handling charge must be applied as revenue, which in accordance with PMMB accounting regulations must offset related expenses. An example of this offset principle is how PMMB handles gains and losses on sale of bulk milk and surplus cream. Thus, if a cooperative incurs \$0.15 / cwt. of receiving, lab and fieldwork charges and collects a \$0.20 handling charge then there is no net expense to be mandated or recognized.

#### **Comments – 7 Pa. Code 149.46 Cooperative Cost Centers**

##### **7 Pa. Code 149.46(a) Cooperative Cost Centers**

(1) *Field Services* – These costs should only apply to Grade A milk. It should be noted that there appear to be differences between the level of field services (and potentially cost) provided by cooperatives and those provided by milk dealers per the testimony of the dairy farmer panel at the OPP II hearing.

(4) *Sales Invoicing* – These costs should be part of General and Administrative and it should be noted that sales invoicing is not a cost incurred by processing milk dealers for the raw milk that they receive from their independent producers for their operations.

(5) *Dispatch, Logistics, and Hauling* – These costs should be reduced by any hauling fees collected from producers.

(7) *Producer Relations* – These costs should be part of General and Administrative and would differ in nature for coops versus fluid milk plants due to the differing objectives of the organizations.

(8) *Customer Relations* – These costs should be part of General and Administrative and are not similarly incurred by fluid milk plants because fluid plants are the customer.

(9) *General and Administrative* – General and Administrative expenses must be allocated in a proportional method among all functions that exist at an individual plant and / or cooperative. The PMMB method for such allocation is to determine the percentage of expenses in each cost center and allocate general and administrative to each cost center as the cost centers are a

percentage of the total expenses. In the cooperative environment, manufacturing facilities exist and must be included in an appropriate allocation of general and administrative in order to be in compliance with PMMB policies and Generally Accepted Accounting Principles.

#### **Additional Recommendations – 7 Pa. Code 149.1**

I suggest that with the addition of 7 Pa. Code 149.46(a), there should be the addition of a new subsection (9) to 7 Pa. Code 149.1: “All expenses and costs recorded in accordance with the Uniform System of Accounts shall be recorded in accordance with Generally Accepted Accounting Principles.” This will make clear that the cost centers shall be developed in accordance with Generally Accepted Accounting Principles consistent with the requirements of section 801 of the Milk Marketing Law.

It is imperative that another cost center is created in 149.46(a) that would record the costs that are related to the other activities conducted by the reporting entity such as manufacturing operations, member services, and activities supported at the reporting entity. This cost center is necessary because these services are supported by the same individuals, functions, facilities that support the other cost centers that are proposed.

PMMB should also establish a detailed chart of accounts, which would be utilized by cooperatives in following 149.46. The chart of accounts to be established should supply direction that is similar to that which is in Section 149.41 – Chart of Accounts as followed by processing milk dealers.

Many cooperatives handle member and non-member milk. The accounting regulations should make it clear that both member and non-member milk would be included in any allocation procedure if the costs of such activity are included.

**Comments – 7 Pa. Code 149.43 Cost Centers and Operating Accounts**

**7 Pa. Code 149.43(a) Cost Centers and Operating Accounts**

**(11) *Selling***

(i) Ice cream – add “and other frozen products.”

(ii) Fluid milk and fluid cream – add “and to include any product that PMMB establishes a minimum resale price.”

**7 Pa. Code 149.43(b)**

(6) *Worker’s Compensation Insurance* – add “any other costs of compensating employees for work related injuries.”

(62) *Market Administrator Fees* – add “administrative excluding producer settlement fund.”

**Summary and Recommendation**

I urge the Board not to adopt the cooperative cost centers. It will take up industry, Board and Staff resources to go through the amendment process and then only to find out that the verification process will be cumbersome and costly due to the numerous business focuses cooperatives have. It is also my opinion that when cooperative costs are accumulated in accordance with PMMB policies and regulations and properly offset by related revenue that the need for a mandated cost will be eliminated. Finally, the integrity of the PMMB accounting policies and regulations are sustained by a careful following of Generally Accepted Accounting Principles. Thank you for your consideration of my analysis and opinions.