

July 5, 2019

Vendor Audit Cost Sharing Policy

The BC Milk Marketing Board (BCMMB) is in the process of developing a policy to share the costs of Vendor Audits with processors. BCMMB has consulted with the Western Dairy Council and has received initial feedback and we are now seeking input from all BC processors.

Due to the rising complexities in the processing environment, the BCMMB audit costs have grown substantially and under the current policies is a cost carried by BCMMB alone. The nature of the complexities causing the rising costs is due to policies and actions executed at a national level which benefit the processors and producers alike. Further, vendor audit cost sharing policies exist in some form across several P10 provinces.

BCMMB's goal through the policy development is to ensure the following principles are achieved:

1. Strategic
2. Accountable
3. Fair
4. Transparent

To achieve the above principles, the policy will strategically assign audits costs in an accountable and fair manner to all processors. The policy would share vendor audit costs on a 50/50 basis between BCMMB and processors. The costs assigned to individual processors would be based on the level of effort required by the auditors and efficiency of each processor in regard to audit compliance. This will for example ensure processors that are well prepared and have proper supporting documentation carry less costs of this policy than those that do not. The transparency of this policy will be achieved by a new vendor audit sub-committee of the BCMMB board which will be comprised of BCMMB staff, the provincial auditor and a processor representative. This committee will receive the summary audit reports from the provincial auditor, provide recommendation and direction to the auditors and review developing and ongoing issues.

The cost distribution of the policy currently being drafted by the BCMMB are as follows:

	Cost	Treatment
1	Regular vendor audit costs	Attributed based on the auditor's actual time at each plant for the previous year, split with vendor 50/50
2	MUV overhead and support costs	5% surcharge on the fees in #1 above
3	Other overhead and administrative costs	\$0.0012/HL volume fee
4	Additional vendor support by KPMG or MUV	Split with vendor 50/50 and added to the following year's cost

These costs will be based on estimated effort at the start of each Dairy Year and will be divided over the months that each plant is active with the BCMMB and receives an invoice, with a reconciliation occurring each year when actual costs are known. Costs will be billed directly from BCMMB to the processors as an added charge on each processor statement. For a small processor in BC, the processor's share of costs is estimated to be approximately \$70/month.

The planned implementation of this policy is October 1, 2019. As this leaves only 10 months of the Dairy Year to apply the costs over, only 10/12ths of the first year's costs will be applied to processors.

BCMMB is seeking feedback on this policy from the processing community which can be submitted through the Western Dairy Council or directly to BCMMB. All feedback should be received by September 11 and in writing by email to Dan Poelman (dpoelman@bcmilk.com).