

September 11, 2020

To: All BC Processors  
Cc: WDC, KPMG  
From: BC Milk Marketing Board

**RE: Vendor Audit Cost Sharing Policy**

In July 2019 the BC Milk Marketing Board (BCMMB) began the process of developing a policy to share the costs of Vendor Audits with processors. From July 2019 to September 2019 the BCMMB consulted with various stakeholders including processors, the Milk Industry Advisory Committee and the Western Dairy Council and has received feedback on the policy drafted. The BCMMB paused its development in December 2019 to address issues raised by processors regarding audit cost sharing, but is now resuming that work.

The rationale and framework for this policy remain unchanged and are outlined below, as copied from the July 5, 2020 notice sent to all 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 governance committee of the BCMMB board which will be comprised of an equal number of BCMMB board/staff and processor representatives totaling six to eight members. The mandate of this committee is to monitor the day-to-day aspects of the provincial vendor audit process, which includes:

1. Receive summary and non-confidential audit reports from the provincial auditor
2. Provide recommendation and direction to the auditors where professional guidance is not provided

3. Review developing and ongoing issues which are not covered by the national audit manual and committee of the CDC
4. Make other recommendations relevant to the vendor audit process to the BCMMB board
5. Meet four times per year, at least once in-person

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 processor for the previous year, split with the BCMMB and the processor 50/50
2	MUV overhead and support costs	5% surcharge on the fees in #1 above
4	Additional vendor support by KPMG or MUV	Split with BCMMB and the processor 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 processor 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 of their statement.

To help remove the financial burden of this policy on small processors, while also treating all processors equally, the BCMMB is proposing that the first \$1,500 of total vendor audit costs be absorbed by the BCMMB. This means that all processors will be omitted from up to \$750 (50% of \$1,500) of the vendor audit costs they are responsible for. For example, a processor that is expected to incur \$2,000 in total vendor audit costs will only be sharing \$500 of these costs (\$2,000 - \$1,500) and will therefore only owe 50% of the \$500 remaining vendor audits costs. In another example, a processors total vendor audit costs are expected to be \$10,000 will be sharing \$8,500 (\$10,000 - \$1,500) and therefor owe \$4,250 for their share of costs for the year. The credit available for all BC processors will not be built into any other processors' vendor audit costs, but instead carried by the BCMMB fully.

The planned implementation of this policy is January 1, 2021. As this leaves only seven months of the 2020/2021 Dairy Year to apply the costs over, only 7/12ths 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 October 23, 2020 in writing by email to Dan Poelman ([dpoelman@bcmilk.com](mailto:dpoelman@bcmilk.com)).

Sincerely,



Robert Delage, CPA, CMA  
General Manager