



Transmitted via e-mail

August 2, 2013

Mr. Dave Preciado, Assistant Director
Animal Health and Food Safety Services
California Department of Food and Agriculture
2800 Gateway Oaks Drive
Sacramento, CA 95833

Dear Mr. Preciado:

Final Report—Sunrise Farms, Inc., Egg Quality Control Mill Fee Assessment Review

The California Department of Finance, Office of State Audits and Evaluations, has completed its compliance audit of Sunrise Farms, Inc., for the period July 1, 2008 through June 30, 2011.

The enclosed report is for your information and use. After review of the draft report, Sunrise Farms chose not to provide a written response. This report will be placed on our website.

We appreciate the assistance and cooperation of Sunrise Farms, Inc. If you have any questions regarding this report, please contact Susan Botkin, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

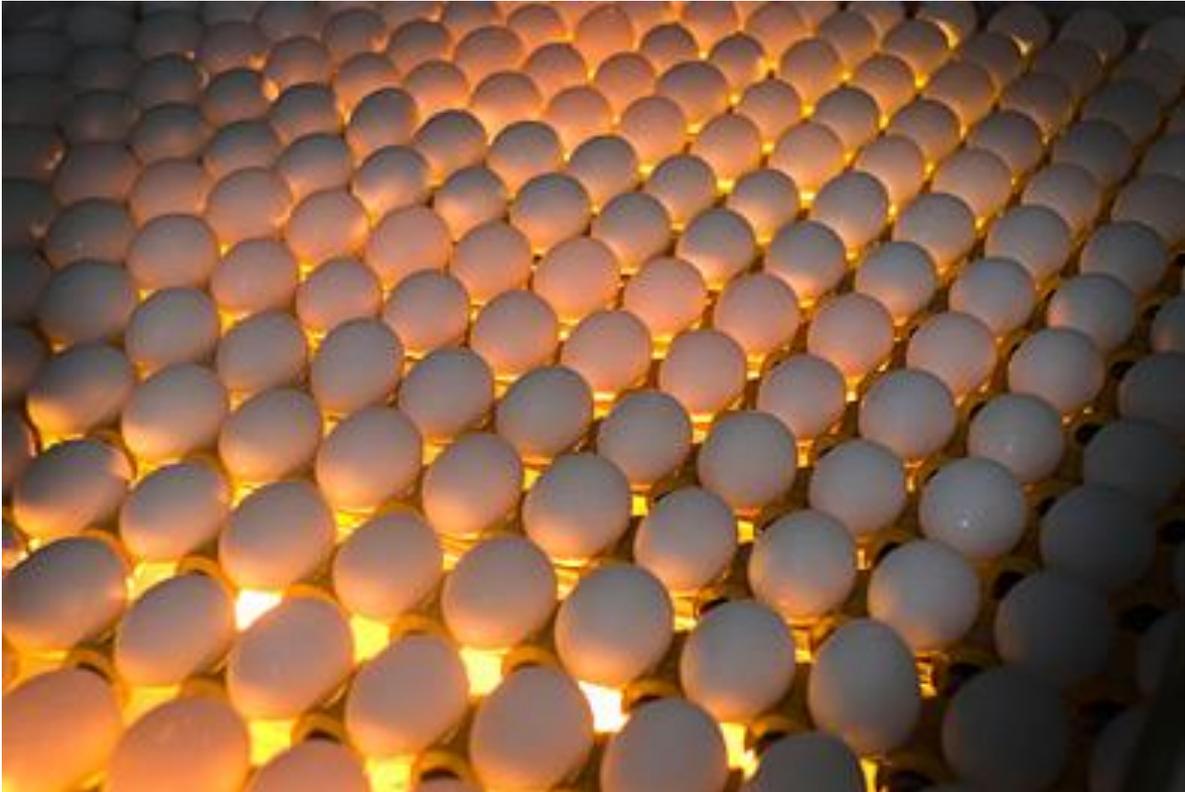
David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Anthony Herrera, Program Supervisor, Meat, Poultry, and Egg Safety Branch, California
Department of Food and Agriculture
Dr. Philip Sonstegard, President, Sonstegard Foods Company
Mr. Peter Sonstegard, Vice President – Sales, Sonstegard Foods Company
Mr. Max Barnett, Finance Officer, Sonstegard Foods Company

Audit Report

Sunrise Farms, Inc.
Egg Quality Control Mill Fee Assessment Review
For the Period July 1, 2008
through June 30, 2011



Source: www.sonstegard.com

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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Office of State Audits and Evaluations
915 L Street, 6th Floor
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(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The California Department of Food and Agriculture (CDFA), Egg Safety and Quality Management Program, is the regulatory authority for shell eggs and egg products produced, shipped, or sold in California. The program's mission is to ensure that eggs sold in California are of known quality, origin, grade and size. They must also be properly handled, labeled, transported, refrigerated, and wholesome and safe to eat.

To help fund inspection activities of eggs and egg products within the state, California Food and Agriculture Code section 27551 requires out-of-state egg producers to pay a fee ranging from one half cent (\$0.005) to four and one half cents (\$0.045) per 30 dozen eggs shipped to California.

Sunrise Farms, Inc., owned by Sonstegard Foods Company, operates a large egg production facility in Harris, Iowa. Sunrise Farms ships eggs directly to California or sells to a distributor who sells the eggs to California. Sunrise Farms is responsible for filing Out-of-State Egg Quality Control Mill Fee Assessment Reports (Assessment Reports) and remitting required fees to CDFA.

SCOPE

In accordance with an interagency agreement with CDFA, the California Department of Finance, Office of State Audits and Evaluations (Finance), audited the Assessment Reports filed by Sunrise Farms during the three-year assessment period July 1, 2008 through June 30, 2011.

The audit objectives were to determine whether the Assessment Reports filed with CDFA were accurate, complete, and fees were remitted in accordance with CDFA requirements.

METHODOLOGY

To determine whether the Assessment Reports were accurate, complete, and in compliance with CDFA laws and regulations, we performed the following procedures:

- Interviewed key personnel and reviewed company policies and procedures to obtain an understanding of the Assessment Report preparation process.
- Toured Sunrise Farms' egg production facility to review how eggs are packed and shipped.
- Reviewed accounting records, sales invoices, and shipping records.
- Selected a sample of Assessment Reports to determine if reported egg counts, sales loss adjustments, and fees calculated were supported, accurate, and in compliance with CDFA laws and regulations.
- Verified fees were remitted to CDFA.
- Performed sales analysis by reviewing company accounting records and matching results to Assessment Reports.

We also reviewed California border station reports collected by CDFA for the three fiscal years. However, due to the high percentage of egg shipments classified as coming from unknown shippers, we were unable to match the station reports to specific Assessment Reports.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, the Out-of-State Egg Quality Control Mill Fee Assessment Reports (Assessment Reports) submitted by Sunrise Farms represents the total cases of eggs shipped to California and related fees remitted to CDFA. The Schedule of Reported and Questioned amounts is presented in the table. Additionally, one observation was identified as reported below.

Schedule of Reported and Questioned Amounts

Sunrise Farms Total Cases of Eggs Reported and Fees Remitted For the Period July 1, 2008 through June 30, 2011						
Fiscal Year	Number of Cases (30 Dozen Per Case)			Assessment Fees		
	Reported	Audited	Questioned	Reported	Audited	Questioned
2008-09	831,426	806,170	25,256	\$37,414	\$36,277	\$1,137
2009-10	710,736	711,501	(765)	\$13,478	\$12,432	\$1,046
2010-11	741,898	714,706	27,192	\$31,421	\$30,432	\$989
Total	2,284,060	2,232,377	51,683	\$82,313	\$79,141	\$3,172 ¹

Observation: Reporting Deficiencies

During the period July 1, 2008 through June 30, 2011, the following reporting deficiencies resulted in Sunrise Farms over-reporting a net of 51,683 cases of eggs shipped to California and over-remitting a net of \$3,172 in related fees to CDFA:

- Sunrise Farms shipped 1.2 million cases of eggs during the three-year period to Southgate Foods, a California egg distributor. Sunrise Farms elected to have Southgate Foods prepare and submit the required Assessment Reports to CDFA. A total of 181,899 cases of eggs were not reported and \$6,666 in related mill fees were not remitted to CDFA due to company reporting errors.
- Six required Assessment Reports were not submitted to CDFA for reporting periods 2009.09, 2009.11, 2009.12, 2010.04, 2010.08, and 2010.12. These resulted in 130,984 cases of eggs not reported and \$3,278 related assessment fees not remitted to CDFA timely. The unremitted fees exclude non-filing penalty and interest charges. CDFA has calculated and provided Finance with the applicable penalties and interest amount of \$3,250 for inclusion in this report. CDFA will issue a demand letter for the amounts due.

¹ See Observation.

- Sunrise Farms over-reported 364,566 cases of eggs and over-remitted \$13,116 to CDFA due to reporting errors that included reporting eggs that were not shipped to California and reporting eggs based on a 15 dozen per case instead of the required 30 dozen per case.

California Administrative Code, Title 3, Division 3, Chapter 1, Subchapter 3, section 1358, requires out-of-state egg producers to accurately report and pay mill fees after the close of each reporting period. The regulation imposes a penalty of ten percent to be charged for each delinquent report and fee payment and two percent interest accrued on unpaid balances.

CDFA has calculated and provided Finance with the applicable penalties and interest amount of \$3,560 (late fees) for inclusion in this report. CDFA will issue a demand letter for the amounts due.

Recommendation:

Ensure accurate and timely reporting and remittance of mill fees to CDFA.

CDFA will make the final determination regarding the disposition of the net overpayment of \$3,172 and the payment of the \$3,560 of late fees.