MILK UTILIZATION AUDIT STANDARDS

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Milk Utilization Audit Standards  

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1. Preamble
These audit standards are designed to provide the minimum standards acceptable to all provinces for milk utilization audits. Provinces may wish to provide more thorough audit coverage according to their needs and available resources. Major processors operate in more than one province and it is important that audit standards be harmonized across all provinces to achieve an equitable treatment of processors and producers. The sharing of revenues among provinces through milk pools further emphasizes the need for milk revenues to be subject to stringent and consistent review of milk utilization declaration.

The maintenance of audit standards is an on-going process that will require regular revisions based upon experience with their use in all provinces. The success of the process depends upon provincial auditing authorities providing this input on a regular basis. The CDC Director of Audit and the National Milk Audit Advisory Committee (NMAAC) will coordinate, with the provinces, updates to the standards.

2. Introduction
The volume of milk used by milk processing plants in Canada and the specific uses for that milk affects the payments received by milk producers. Although the harmonized classification of milk, as incorporated into the provincial regulations, defines the different classes of milk, some assurances must be provided to milk producers and competing processing plants that the volumes and classes of milk utilization declared by a given processing plant conform to the classification. Please see Appendix A for the harmonized classification system. To provide this assurance, an independent procedure of reviewing each licensed plant’s monthly milk utilization report is in place. It is frequently referred to as an audit, which conforms to Webster’s Dictionary definition “to examine and adjust (accounts)”.

Conducting a milk utilization audit is difficult and time consuming for the following reasons:
1. Individual dairy processing plants differ from one another in accounting procedures, types of sales, accounting periods and corporate records.
2. Some products are classified according to sales and others according to production. The principle of invoicing milk is based on end use of the product as illustrated in Appendix A.
3. Audit procedures used in fluid milk plants differ from those used in industrial milk plants.
4. Plants engaged in combined production of fluid milk and industrial milk products create an opportunity for shrinkage or improper transfer of products between classifications.
5. Numerous milk plants transfer and/or sell products in bulk to other plants. A visit to the receiving plant or a balancing and cross-reference with another inspector is frequently required.
6. Some commercial transactions may be complicated to the extent that contracting of milk, manufacture and marketing occurs in more than one province and appropriate documentation has to be obtained from other provinces.
7. The multiple component pricing system makes it necessary to account for both volume and butterfat, protein and other solids usage.
8. The plant may have access to imported milk or other dairy products or may purchase products that must be excluded from inventory and sales data that is considered in utilization reporting.

3. Overview

3.1. Right to Audit
The provincial regulations and regulatory agencies may specify how to resolve the various audit difficulties encountered in plant audits and to provide uniformity of audits between plants. It is also
recognized that the industry is in a continual state of change and thus policies are adapted, added or eliminated on a regular basis.

The relevant Provincial Acts and Regulations provide the authority to:

- Require persons engaged in producing, processing or marketing a regulated product to furnish such information relating to the production, processing or marketing of the regulated product as the Province or marketing board determines.

- Appoint persons to inspect the books, records, documents and premises of persons engaged in producing or marketing a regulated product.

- Authorize any inspector\(^1\) to exercise such of its powers, as it considers necessary and to report thereon to the appropriate parties.

And that every inspector may generally:

- Enter any premise or conveyance used for the producing, processing or marketing of milk or milk products and inspect any production process, milk or milk products found therein.

- Require the production or furnishing of copies or extracts from any books, records or documents of persons engaged in the producing, processing or marketing of milk or milk products.

Federal authority to enter production and processing facilities for inspection and enforcement is provided by sections 17-19 of the Canadian Dairy Commission Act. Delegation of this inspection authority is provided to provincial inspectors to allow review of inter-provincial processing activity.

3.2. Multiple Component Pricing

Multiple Component Pricing (MCP) is a method of paying for milk received at a plant based on the component prices on an end use basis.

3.3. Milk Billing Process

Processing plants are required to complete a monthly "Milk Utilization Report". This report should include all milk purchased and how the milk was utilized in the plant, i.e. classification. The milk usage as stated on the invoice is later reviewed by audit. An audit adjustment report is then submitted to the board and processor.

Please note the word “Board” as it appears throughout this document should be broadly interpreted to mean Producer or Milk Control board as is appropriate to the agency in each province.

A sample utilization report is provided in Appendix B.

3.4. Special Class 5(a-d) Audit Procedure

The CDC issues permits to further processors that are eligible to purchase milk at a reduced price. Milk processing plants, upon proof of a permit, declare the volume and weight of butterfat in the milk or milk products sold to a further processor in the special class. This milk is priced on a component basis only, where the amount of protein and other solids are calculated based on the declared volume and butterfat. For the calculation, please see the pure skim formula in Appendix G.

\(^1\) In this document, the words inspector, auditor and verifier refer to the individuals who audit milk utilization data.
**Yield:** Quantity of components put into production to obtain one unit of a finished product. Example: kilograms of butterfat/kilogram of cheese, kilograms of protein/kilogram of cheese, kilograms of lactose and other solids/kilogram of cheese. It can also be kilograms of components per litre of product. Special class declarations include a pro-rata amount of processing losses as illustrated in Appendix K- subject to regional pool rules.

- All dairy products included in definitions of classes 1 to 4, except classes 4(a)1, 4(d) and 4(m) can be included in the calculation of special class yields.

- The following by-products can be used in the calculation of special class yields:
  - whey cream and whey butter
  - buttermilk (liquid or powdered)

- Any by-product which is not mentioned above must be approved by the CMSMC before being included in the calculation of special class yields.

- No new class or subclass added to the current harmonized milk classification system can be included in the calculation of special class yields without the CMSMC’s approval.

Provincial auditors will, on a test basis, ensure that the plant accurately reports by permit number, the number of litres of milk used to make the special class product and the related components. For the selected transactions, the invoice to the further processor should be reviewed to ensure the permit number is quoted on the invoice and the quantity of product agrees with what was reported to the CDC. The CDC provides Milk Boards with monthly electronic information of any special class permits in effect. Class 5 d (export transactions) must be audited for compliance with the timeframe and quantity specified on the permit. Special class declarations may be made only based on the processor’s sales invoice.

The CDC has the responsibility to track total purchased quantities against permit and will ensure the eligibility of products purchased and made with the dairy ingredients through audits of further processors and distributors holding special class permits. Because of national pooling of special class transactions, it is important to maintain on-going communication with the CDC audit section. For special class transactions that appear to be beyond normal butterfat content % ranges* in the milk components declaration, the CDC may follow-up with the appropriate provincial auditors who will confirm that the declarations are appropriate.

*The tolerance levels shall be communicated by the CDC to the provincial auditors prior to such follow-up requests.
3.5. Domestic Surplus Removal Class (4m)

The price of Class 4(m) applies to milk used to make SNF type products, i.e. skim milk powder (SMP) and milk protein concentrate (MPC), to be used in the manufacture of certain finished products such as animal feed products, standardized cheeses, nutraceutical products, pet foods products and any other finished products approved from time to time by the CMSMC. Companies making eligible products will be issued a 4(m) permit by the Canadian Dairy Commission and the audit requirements for this class are similar to those for special class transactions. The CDC provides Milk Boards with monthly electronic information of any Class 4(m) permits in effect (similar to Special Class) and another quarterly report will be sent to provincial auditors on Class 4(m) permit holders that are dairy processing plants. The CDC has the responsibility to track total purchased quantities against permit and ensure the compliance of the finished product made with the SMP and MPC through audits of companies holding 4(m) permits.

3.5.1 Definitions

Eligible product: skim milk powder (SMP) and dry milk protein concentrate (MPC)*
* In the case of standardized cheeses, nutraceutical products, and pet foods products, dry MPC is the only eligible ingredient under Class 4(m).

Primary processor: A processor who makes eligible dairy products under class 4(m).

4(m) permit holder (end-user): The Company who has been issued a 4(m) permit by the CDC and who uses an eligible dairy product under class 4(m) to make animal feed products, standardized cheeses, nutraceutical products and/or pet foods products. It can be the same entity as the primary processor.

3.5.2 Milk Utilization Reporting

Milk utilization in Class 4(m) can only be declared once the eligible product has been sold to a 4(m) permit holder (end-user). If the eligible product is used by the company that manufactured it, the company must have been issued a 4(m) permit, and relevant declarations must be made at the moment of sale or transfer within the company and must be accompanied by a supporting document.

3.5.3 Auditing the primary processor

Milk components reported in Class 4(m) by the primary processor will be audited on a sample basis by the audit agency of the province where this processor is situated, according to the raw milk utilization audit procedures in effect.

The manufacture of an eligible product, as well as the associated components reported in Class 4(m), must be justified by a sale to a 4(m) permit holder.

In the case where the 4(m) permit holder is another dairy processor for the use of MPC in standardized cheeses, provincial auditors in the declaring plants will provide quantities of MPC declared under 4(m) to provincial auditors in the receiving province to validate that the standardized cheese using the MPC was made. The primary processor must provide to the auditor the records that show the quantities of eligible products sold to 4(m) permit holders. The transfer template shown in Appendix O can be used to transmit this information.
3.5.4 Auditing the 4(m) MPC permit holder in the case where it is another dairy plant (standardized cheeses)
The CDC is responsible to audit the transactions and end uses of the eligible product in accordance with the contract signed by 4(m) permit holders but can delegate the audit authority to the audit agency of the province where the standardized cheese is made in the case where the 4(m) MPC permit holder is another dairy plant making standardized cheeses by following a risk-based approach as indicated in section 4.3.1 below. This includes verifying with invoices that the cheese made with 4(m) MPC is a standardized product. The provincial auditor in the receiving province will complete the report contained in Appendix O and send it to the auditor of the requesting province within six months following a request to confirm that the audit work has been completed.

3.5.5 Other reports concerning Class 4(m) MPC
- Components used and audited by dairy year and by province
Every six months, auditors in each province must submit to the CDC and to the provincial board the report included in Appendix Q on quantities of components audited in Class 4(m) MPC. Provincial audit groups are obligated to coordinate amongst themselves, the exchange of the necessary information required to complete this report.

This report must be submitted to the CDC within 12 months of the end of the dairy year during which the cheese product was manufactured. The auditors must also send any corrections to the data already submitted, as needed.

3.6. Imported Butter
Canada, to meet its obligations under the World Trade Organization, provides for access to specified quantities of butter on an annual basis. The Canadian Dairy Commission has been designated as the importer of record of this butter and arranges for its purchase. The product is generally stored temporarily in warehouses and is ultimately sold to the processing industry at a price comparable to the special class price used in the further processing industry. The audit section of the CDC will send reports every quarter to the appropriate provincial inspector of the amount of imported butter sold by plant to processors in the province.

This imported butter data will assist the inspector in ensuring a special class transaction is not declared in the milk utilization report for permit holder sales made with imported butter. The inspector should ensure that this imported butter is sold to special class permit holders and not used for domestic sales.

3.7 Class 4(a)1
The price of Class 4(a)1 applies to milk used to make milk protein concentrate (MPC) (liquid or dry), rennet casein (dry or curd), or skim milk (liquid or dry) to be used in the manufacture of non-standardized final products in the processed cheese category destined for the domestic market (4(a)1 components cannot be declared under Special Class).

3.7.1 Definitions
Eligible product: Skim milk, skim milk powder, rennet casein (dry or curd) and MPC (dry or liquid).
Primary processor: A processor who makes dairy products and sells under class 5 (a, b, c), 4(m) and also makes eligible products under class 4(a)1.
Secondary processor: A processor who uses dairy ingredients under class 5(a, b, c) or 4(m) or uses
an eligible product under class 4(a)1 to make non-standardized finished products in the processed cheese category.

3.7.2 Milk Utilization Reporting
Milk utilization in Class 4(a)1 can only be declared once the eligible product has been sold or transferred to a secondary processor. If the eligible product is used by the company that manufactured it, relevant declarations must be made at the moment of sale or transfer within the company and must be accompanied by a supporting document. It is important to note that the eligible product must be sold or transferred directly to a secondary processor; i.e. the transaction cannot involve a third party (broker, distributor, etc.).

For the purpose of revenue sharing, provincial boards report monthly to the CDC the total quantity of components used in Class 4(a)1 in their respective provinces.

3.7.3 Auditing the primary processor
All milk components for all months reported in Class 4(a)1 by the primary processor will be audited by the audit agency of the province where this processor is situated, according to the raw milk utilization audit procedures in effect.

The primary processor must provide to the auditor the records that show the quantities of eligible products sold or transferred to plants that manufacture finished products and must provide the auditor with contact information for these plants.

The manufacture of an eligible product, as well as the associated components reported in Class 4(a)1, must be justified by a sale or a transfer to a secondary processing plant. Payment in Class 4(a)1 by a primary processor will only be permitted if the end use respects the rules surrounding Class 4(a)1 and is subject to an audit of the secondary processor.

It is the responsibility of the primary processors to ensure that the provincial audit groups have access to the necessary records to verify the end use of eligible product that is transferred or sold to a secondary processor. Invoices and transfer documents issued by the eligible product manufacturer must clearly indicate that the pricing for the eligible product is dependent on its end use and that the plant records of the end user of the product will be subject to audit in accordance with end use requirements per Class 4(a)1 of the National Harmonized Classification System. The rennet casein reported in Class 4(a)1 must be made from skim milk and the butterfat content of the finished product is limited to 2% as indicated in the Codex standard. If there is no adequate proof of proper use of eligible products, the primary processor will be charged the class 4(a) price, by the provincial auditor.

To qualify for 4(a)1 pricing, all eligible products must be used in the manufacture of non-standardized final products in the processed cheese category as defined in the National Milk Classification System.

3.7.4 Auditing the secondary processor
Transactions and end uses of the eligible product are audited by the audit agency of the province where the secondary processor is situated following a risk-based approach, as indicated in section 4.3.1 below.

The secondary processor must provide to the auditor the list of all non-standardized final products in the processed cheese category made at the plant. Provincial auditors will perform a global reconciliation to ensure that quantities of Class 4(a)1 components used in non-standardized final products in the processed cheese category per the list are equal or exceed the quantities of Class 4(a)1
components received at the plant.

The audit section of the CDC will send reports every quarter to the appropriate provincial auditor of the amount of processed cheese sold under Special Class by plant to further processors in the province. This data will assist the auditor in ensuring that 4(a)1 components are not declared under Special Class for sales of non-standardized final products in the processed cheese category to permit holders.

In accordance with the indication on the invoice from the primary processor, the plant of the secondary processor must keep records of the end use of the eligible product bought or received from the primary processor to manufacture finished products. If the transfer is done within a plant, transaction records must be maintained and accessible.

3.7.5 Interprovincial exchange of information for audit purposes

Effective August 1st, 2012, the provincial audit agencies shall exchange information on the quantity of milk components and eligible product related to interprovincial transfers as outlined in 3.7.7. When auditing a primary processor, the auditor of a province from which the eligible product has been transferred to another province will submit the report contained in Appendix O to the auditor of the receiving province.

Once the audit of the transactions is completed, the auditor of the receiving province, where the product has been used by a secondary processor, must complete the report contained in Appendix O and send it to the auditor of the requesting province.

The province where the end use occurred must do the required audit within six months following a request from the province where the eligible product was manufactured, as per Appendix O. If the province where the end use occurred does not comply, it must reimburse the difference between Class 4(a)1 price and the result of the calculation of the P10 target price as administered by the CDC multiplied by the unaudited components.

3.7.6 Other reports concerning Class 4(a)1

- Components used and audited by dairy year and by province

Every six months, auditors in each province must submit to the CDC and to the provincial board the report included in Appendix P on quantities of components used and audited in Class 4(a)1, including the assurance that 4(a)1 components were not declared under Special Class. Provincial audit groups are obligated to coordinate amongst themselves, the exchange of the necessary information required to complete this report.

This report must be submitted to the CDC within 12 months of the end of the dairy year during which the eligible product was manufactured. The auditors must also send any corrections to the data already submitted, as needed. If a province fails to comply with these audit requirements, milk declarations for the relevant classes will be reverted for the dairy year under review.
### 3.7.7 Summary of required reports and information exchange for Class 4(a)1 and Class 4(m) MPC
(Eligible components and products)

<table>
<thead>
<tr>
<th></th>
<th>Primary processor</th>
<th>Provincial board</th>
<th>Provincial auditor</th>
<th>CDC</th>
<th>CMSMC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secondary processor</strong></td>
<td>Condition on invoice authorizing the audit of the end use of an eligible product bought from a primary processor</td>
<td>-</td>
<td>Monthly declaration (component only)</td>
<td>Random and Risk-based audits of 4(m) MPC permit holders</td>
<td>-</td>
</tr>
<tr>
<td><strong>Primary processor</strong></td>
<td>-</td>
<td>Monthly declaration (component and quantity for each eligible product sold by province (3.7.3))</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Provincial board</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Total quantity of components used in Class 4(a)1 and Class 4(m) for monthly sharing of revenues (3.7.2)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Provincial auditor</strong></td>
<td>Quantity of components used and audited in Class 4(a)1 Appendix P (3.7.6) and Class 4(m) Appendix Q (3.7.6)</td>
<td>Interprovincial monthly transfers (manufactured, sold or received): 1) Total quantities of components declared (transferred, sold or received) 2) Total quantities of eligible products manufactured Upon Request: Report from Appendix O and data adjustments following an audit</td>
<td>-</td>
<td>Semi-Annually: Aug. 1st to Jan 31st &amp; Feb 1st to July 31st 1) Quantities of components used and audited in Class 4(a)1 and Class 4(m), Appendix P (3.7.6) 2) Inventories of 4(a)1 and Class 4(m) components at the end of the period (3.7.6)</td>
<td>-</td>
</tr>
<tr>
<td><strong>CDC</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Progress report on the auditing of Class 4(a)1 and Class 4(m) and comparison of audited components (end use) vs. components declared to the pool.*</td>
<td>-</td>
</tr>
</tbody>
</table>

*If this reconciliation results in significant differences, we will have to re-visit the methodology.*
3.8. Domestic Dairy Product Innovation Program (DDPIP) / Dairy Innovation Program (DIP)

This program allows successful applicants to access adequate milk components to produce their innovative product. Provincial auditors, as part of their milk utilization audit responsibilities, must ensure DDPIP/DIP milk deliveries are supported by adequate production of the innovative dairy product. The Provincial Boards have the data regarding the milk components delivered under DDPIP/DIP, as does the Canadian Dairy Commission to facilitate the audit work.

3.8.1. Monthly Declarations

The following outlines the requirements for reporting all DDPIP contracts according to the first-use method and to define the assurance of compliance with these requirements. To this end, a description of the methodology used to convert end-use utilization to first-use volume is provided along with the monthly reporting template and the annual auditing procedure. DIP contracts are based on end-use only.

Plants with an active DDPIP contract send to the provincial contract signatory (the provincial milk marketing board) the total raw milk volume which was required in a given month to produce the dairy product related to the contract number or in provinces where the plants’ declarations are made on an end-use basis, this volume will be converted into first-use using Pearson square formula. The provincial board ensures that total raw milk volume declared does not exceed the volume allowed as per the innovation contract on an annual basis.

Plants with an active DIP contract send to the provincial contract signatory the end-use volume and end-use butterfat which was actually required to produce the dairy product related to the DIP contract number. The provincial board ensures that total end-use milk volume does not exceed the volume allowed as per the innovation contract on an annual basis.

For a given month, the provincial milk marketing board reports raw milk volume to the CDC for DDPIP by contract number in litres of raw milk and kilograms of butterfat by multiplying the total volume received by the plant for each contract by the average butterfat content of all raw milk deliveries to that plant (see Appendix L).

For DIP contracts, the provincial marketing board reports the end use volume of milk and the end-use kilograms of butterfat used each month to produce the related dairy product for each contract.

3.8.2. Audit Procedures

All milk delivered under the DDPIP/DIP program must be audited on a regular basis. The provincial signatory of the innovation contract sends a copy of the contract signed by the plant and the CDC to the provincial auditor. The product specification in the contract must be adequately detailed so that the auditor can ensure that the milk has been allocated to the innovative dairy product.

The provincial auditor also receives data on litres of raw milk and related components delivered and received under each contract (see Appendix L).

By verifying end-use milk utilization every month along with the conversion to first use volume using the Pearson Square formula for DDPIP contracts (see Appendix M), the provincial auditor ensures that the production of the dairy product stipulated by the contract justifies the milk required and received by the

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2 Dairy Innovation Program (DIP) as of August 1, 2013
plant and delivered by the provincial signatory.

The DDPIP/DIP audit report also ensures that other criteria stipulated by the contract are met. The final report (see Appendix N), is submitted to the plant, the provincial signatory, and the CDC. This has to be done on an annual basis.

If the report reveals non-compliance (i.e. use of imported dairy ingredient in the manufacturing of the innovative product) or adjustments, the required modifications are carried out by the provincial signatory and the CDC. Any required credit or quota adjustment would be made at the time of the audit. In the event the milk supplied is not being used for the intended purposes, the provincial auditor will notify the provincial signatory and the CDC so that proper actions can be taken.

The last year of DDPIP declaration which will become crystallized in the provincial MSQ must be audited within 12-months of that year-end. Failure on the part of the province to comply with these DDPIP audit requirements will result in reversal of quota credits and/or MSQ crystallization. There is no crystallization of MSQ in the case of DIP declarations.
3.9. Class 3(d) Audit Procedure

Milk Class 3(d) allows dairy processors to access milk components at a reduced price to manufacture standardized Mozzarella Cheese destined for sale to certain distributors and/or restaurants that hold a CDC permits/registration numbers.

Milk processing plants, upon proof of a permits/registration number, declare the volume and weight of butterfat in the cheese sold to a distributor or restaurant. All milk components for all months reported in Class 3(d) by the processor will be audited by the audit agency of the province where this processor is situated. The processor terms and conditions as outlined in the processor agreement for Class 3(d) Mozzarella Cheese that the dairy processor is required to provide all information deemed necessary by the provincial auditor to ensure adherence to the modalities of Class 3(d).

3.9.1 Definitions

Eligible product: Mozzarella Cheese (Mozzarella (Scamorza), Part Skim Mozzarella, Pizza Mozzarella and Part Skim Pizza Mozzarella cheeses) in accordance with the Dairy Product Regulations Section 28 as it relates to these cheeses, which are sold in packages of not less than 2 kg on a net weight basis clearly marked: “Not for retail sale, for use only on pizza prepared and cooked on site” or “Not for retail sale. For pizza only cooked on site”.

Primary processor: A processor who makes eligible dairy products under class 3(d).

3.9.2 Milk Utilization Reporting

Milk utilization in Class 3(d) can only be declared once the eligible product has been sold to a distributor/restaurant.

The CDC provides Milk Boards with monthly electronic information of any Class 3(d) permits/registration numbers in effect. Class 3(d) declarations may be made only based on the processor’s sales invoice.

3.9.3 CDC responsibilities

The CDC has the responsibility to track total sales quantities by permits/registration number and will ensure the eligibility of the mozzarella purchased through audits of restaurants and distributors holding class 3(d) permits/registration numbers, following a risk-based approach.

3.9.4 Milk Utilization Audit Procedures (Provincial auditors)

Audit Procedures related to the Production of Class 3(d) Mozzarella Cheese

Auditors will, on a test basis,

- Compare the Milk Utilization Reporting with the monthly production reports for Mozzarella Cheese detailing milk used (L and kgs of BF) and total quantity produced
- From the summary of daily vat sheets, select a sample of individual vat sheets and calculate yields for each type of product (including plant losses/gains in the calculation)

Utilization Audit Procedures related to the Reclassification of Class 3(d) Sales

Auditors will, on a test basis,

- Verify that class 3(d) sales were made to a valid Class 3(d) permit holder – distributor or pizza restaurant registered under the program by the CDC validated with CDC database;
- Ensure, on a sample basis, that sales invoices or credit notes for Class 3(d) transactions clearly show the following:
DM # 246194 15

- The name of the Standardized Mozzarella Cheese variety corresponding to an eligible standardized product (i.e. Mozzarella (Scamorza), Part Skim Mozzarella, Pizza Mozzarella and Part Skim Pizza Mozzarella Cheese);
- The permit number (distributor) or registration number (restaurant);
- The packaging size (not less than 2 kg);
- The type (blocks, shredded or diced).

- Verify the labels on a sample of actual packaging to ensure that:
  - It corresponds to an eligible standardized product (i.e. Mozzarella (Scamorza), Part Skim Mozzarella, Pizza Mozzarella and Part Skim Pizza Mozzarella Cheese);
  - The name on the package is the same as the invoice;
  - It shows “Not for retail sale, for use only on pizza prepared and cooked on site” or “Not for retail sale. Only for pizza cooked on site”.

Auditors will compare the Milk Utilization Reporting with the monthly sales reports for Class 3(d) (equivalent L and BF) and compare plant yield calculation with audit calculation to ensure accurate declaration.

Auditors will also aggregate the annual Class 3(d) sales and ensure these do not exceed the total of Mozzarella available (inventory, purchase, production) at the plant for that period.

Audit Procedures related to cheese standards

Compliance of compositional requirements for cheese produced at registered dairy establishments in Canada is assessed by the Canadian Food Inspection Agency (CFIA) in both traditionally inspected dairy establishments and in HACCP recognized establishments making cheese. It applies to all standardized cheeses including varieties not listed in the table referred to under Section 28.(1) of the Dairy Products Regulations.

For the purpose of this class, audit procedures related to cheese standards are as follow:

- Each time CFIA performs an audit of the cheese standards in a plant, the processor commits to informing the provincial auditor within 15 days following the CFIA audit of products in Class 3(d).
- For each cheese standards audit by CFIA (on eligible products for class 3(d)), the processor presents to the provincial auditor a proof of compliance or of non-compliance issued by CFIA:
  - In case of compliance (Satisfactory Inspection), it can be a letter or an email sent by CFIA confirming the compliance of the product, or a CFIA Cheese Composition Verification Report from which confidential information will have been crossed out.
  - In case of non-compliance (Non Satisfactory Inspection), the processor commits to providing the letter sent by CFIA for unsatisfactory results as shown in Appendix VI below.
  - The letter sent by CFIA for notification of verification findings (see Appendix VII below) will also be required if compliance is within the 1% tolerance level.
- If an eligible product is found to be non-compliant (more than 1% discrepancy), it will be reclassified in Class 3(c) (currently Class 3c2 in QC) for the 3 months preceding the CFIA findings.
APPENDIX VI – SAMPLE LETTER FOR UNSATISFACTORY RESULTS

Subject: Unsatisfactory Results – Cheese Composition Verification

Dear:

On (DATE), a cheese composition verification of (formula/recipe) was performed by CFIA inspection staff at your facility. The results of this verification indicate that the product does not comply with the compositional standards for cheese.

This is contrary to the standards set out in the section 28 (or section 3.3 for Cheddar) of the Dairy Products Regulations and section B.08.033 (or B.08.034 for Cheddar) of the Food and Drug Regulations which require the casein content that is derived from milk, ultrafiltered milk, partly skimmed milk, ultrafiltered partly skimmed milk, skim milk, ultrafiltered skim milk or cream rather than from other milk products for (NAMING THE VARIETY CHEESE) be at least (X%) of the total protein content of the cheese.

Please forward your written and signed action plan to this office no later than (DATE – 3 weeks from date on letter).

This letter is also to advise you that your corrective actions will be verified during a follow-up visit. Future instances of non-compliance may also result in further enforcement action.

If you have any questions, please contact the undersigned at (PHONE NUMBER).

Name
Position (Inspector)

cc: Supervisor, Operations Officer, Area Program Network Specialist

APPENDIX VII – SAMPLE LETTER FOR NOTIFICATION OF VERIFICATION FINDINGS

Subject: Cheese Composition Verification

Dear:

On (DATE), a cheese composition verification of (formula/recipe) was performed by CFIA inspection staff at your facility. The results of this verification indicate that the product does not comply with the compositional standards for cheese however it is within 1% of the minimum %CDM and as such the CFIA will not be taking immediate action on this product.

This letter is also to advise you that the CFIA may complete another cheese composition verification on the same variety/recipe of cheese as the original cheese composition verification within 3 months.

Please be reminded that the standards are set out in the section 28 (or section 3.3 for Cheddar) of the Dairy Products Regulations and section B.08.033 (or B.08.034 for Cheddar) of the Food and Drug Regulations which require the casein content that is derived from milk, ultrafiltered milk, partly skimmed milk, ultrafiltered partly skimmed milk, skim milk, ultrafiltered skim milk or cream rather than from other milk products for (NAMING THE VARIETY CHEESE) be at least (X%) of the total protein content of the cheese.

If you have any questions, please contact the undersigned at (PHONE NUMBER).

Name
Position (Inspector)

cc: Supervisor, Operations Officer, Area Program Network Specialist
Flowchart of the Class 3(d) program

**Processing of 3(d) Mozzarella**
- Processor
  - 3(d) Agreement
  - Monthly Utilization Reporting to the Provincial Board
- Pooling
- Provincial Milk Utilization: Audits
  - *Estimated # of participants: 15-20*

**Distribution**
- Authorized Processor / Distributor / Franchisor
  - 3(d) Agreement
  - 3(d) Distribution Permit
- Monthly 3(d) Sales Reporting by Client
- CDC Milk Ingredients Reporting System (MIRS)
- Monitoring and auditing by CDC on a risk-based approach
  - *Estimated # of participants: 150-200*

**End-Use**
- Authorized Restaurants selling fresh cooked pizza
  - One-time online registration including acceptance of terms and conditions (audit rights, record keeping requirements, etc.)
- Client Registration Number
- * # of participants: 5,000 - 6,000 (many of them being franchisees)*
4. Milk Auditing Methods and Procedures

4.1. Milk utilization supporting documents
All fluid plants are required to produce daily purchasing, production, sales, month-end inventory records, and a period summary that conforms to these dates.

All industrial plants are required to produce daily purchasing, production and month-end inventory records of raw milk, and a period summary that conforms to these dates.

Since processing plants use internal records to file their monthly milk utilization report, the inspector must become familiar with the documentation used in compiling this report. This documentation must be reviewed for arithmetical accuracy and completeness of information. Samples of the records used should be maintained in an individual plant file by the inspector.

It is not the intent of the Audit Program to dictate the styles and types of internal records maintained by a plant. However, the records must be legible, complete and stored in a manner convenient and acceptable to the Board. If any of the plant’s reporting forms and/or procedures is not acceptable to the Board from an auditing viewpoint, suggested changes are to be discussed with plant management and an agreement reached in writing, on how to implement these changes.

4.2. Audit Scope (General Approach)
Plants producing a number of products using a high volume of milk that are classified in different classes carry a higher financial risk than those processing smaller volumes of milk into 1 or 2 classes. The declaration of lower price transactions also constitutes a higher risk. Every processing plant should be audited at least every two years. Audit visits every two years should only be contemplated for low volume plants with few classes of milk and limited or no operations that include lower priced transactions such as class 4m, 4a(1), class 5, etc. The number of months to be audited within the 12 months or periods, however, is a matter of professional judgement. The degree of risk of misreporting significant transactions should be assessed. Some monitoring of utilization declaration should be performed for the year where a plant is not visited. The resources required to perform a full audit of utilization for all twelve months of a milk plant’s operation may be impractical for some provinces. The application of various analytical techniques as part of a risk assessment may indicate that the risk of material errors is minimal and hence the audit work can be reduced. This would be based (for example) upon the inspector’s knowledge of the past history of the plant as to the reliability of their reporting, the strength of the system of internal control and whether there have been any major system or personnel changes that could affect the reliability of this reporting.

Utilization reports should be reviewed to ensure gains or losses are minimal, activity has not changed much in the past year, risk of errors in declaration are minimal and have little financial impact.

The Milk Boards may also reduce the risk of milk payment errors by the monthly review they make of milk deliveries. Minimally, producer Boards will generally ensure that all delivered milk components are accounted for by total utilization reported by all plants in the province.

4.3. Risk Assessment
Analytical review of Monthly Utilization Reports – without a plant visit - An analytical review of month’s activity would ensure that delivered components are equivalent to total milk components received per the utilization report of the plant unless already performed by the Board. If the auditor has access to finished product production data, the auditor can also analyze the yields versus past experience with the plant or compare with industry averages. The auditor should also ensure that the total 12-month production by class from the utilization reports agrees with the total production (from the plant’s accounting system) of the various products included in the class.
Another key element for reviews is the amount of unaccounted for gain or loss in the utilization report. The percentage of loss should fit the norm of the plant and should be less than 3%. Unusually high losses or gains may be offset in the subsequent month or should be investigated as an unacceptable error. The pro-ration of losses or gains to production classes tends to smooth out the financial impact of errors in milk declaration.

Reporting of inventories may be a good area to investigate when gains appear or losses are high. Comparison of changes in inventory 4(d) from month to month may point to errors in reporting. These analytical procedures that indicate unusual patterns in reporting, should be the months selected for full audit work when a plant visit is arranged. Other factors to be considered in a risk assessment include those surrounding the control environment of the plant, which are detailed in the list that follows.

A comprehensive list of criteria in a risk assessment includes the following:

1. Volume of milk
2. Value of components x quantity
3. Unexplained losses /gains
4. Accuracy of reporting
5. Complexity of operations (e.g. multiple products, various classes)
6. Knowledge of people in charge (e.g. new people vs. experienced people)
7. Past audit experience
8. Management integrity based on auditor's professional judgment and level of cooperation
9. Past audit adjustments
10. External auditor's report on internal control
11. Special class transactions, 4(m) & 4(a)1 (price differences of components)
12. Imported butter transactions
13. IREP activities
14. Sub-contracting of processing
15. Production yields
16. Trend analysis: Identifying inconsistency of monthly transactions in each class. Unusual volume in certain classes will be identified as higher risk

Transaction testing also may be on a sample basis - preferably one that is statistically valid. Judgmental sampling may also be valid, depending on the inspector’s assessment of the audit risk in the plant. For example, it is not necessary to check all special class invoices if these are on a computerized report the integrity of which has been established by the auditor.

Generally, more effort should be concentrated on the audit of lower price transactions because of the significant financial effect of an error in declaration in these classes.

Extra inspection work should be done when problems are found during the audit, i.e. errors must be evaluated as exceptional or recurrent. Apparent recurrent errors will require checking of additional months of utilization; the extra checking would determine whether there were wrong assumptions that were continually made in the routine monthly declarations.

Work can be reduced when things go smoothly - in the professional judgement of the inspector.

**4.3.1. Risk Assessment for Class 4(a)1 and Class 4(m) MPC**

In determining the need to audit an end use plant under Classes 4(a)1 and Class 4(m) MPC, the following risk criteria will be considered:

- Kg of product transferred to the end user
• Inconsistency of transferred volume
• Use of eligible product in own enterprise
• Transfer of product to a non-dairy plant
• Transfer of product outside the province of primary processing
• Transfer of product to a different dairy enterprise
• Knowledge of the end user entity
• Past audit experience (i.e. accuracy of reporting, continuity of personnel, past audit adjustment)

Notwithstanding the above, end use plants will be audited at least once every three years

4.4. Audit of Milk Utilization

Because of the necessity of reconciling plant utilization to raw milk purchases, the first documents to be examined are the purchase invoices. The invoices should be compared to receiving records maintained by the plant. Discrepancies between the plant records and the purchase invoices should be brought to the plant's attention. Resolution of these discrepancies is a matter to be resolved between the receiving plant and the Board. Transfers in and transfers out of milk should be validated by checking shipping documents. Transfers out by the shipping plant should be at the same class as transfers in to the receiving plant.

The auditor should request information on fluid products purchased and not produced in the plant to ensure their exclusion from sales and/or inventory reports.

The inspector should ensure that proper follow-up procedures exist such that adjustments as determined by prior audits have been resolved.

Inspectors should randomly select sales and returns of fluid milk products to individual accounts to see if they are properly reflected in the sales summary. Conversion of equivalent litres to kilograms of butterfat for fluid products using specific gravity should be checked against the accepted standards.

Where milk utilization by class is claimed on production records rather than sales records, it will be necessary to use actual product yield values to verify that the proper amount of milk was declared in that classification. e.g. for cheese, the vat records or summary vat reports will generally be used to establish the milk and the yield based on cheese produced could be checked for reasonableness against the historical yield of the plant.

Since inventories can materially affect the Milk Utilization Report, inspectors may have to establish the reliability of the physical inventory process.

4.5. Documents to be Examined

4.5.1. Fluid Milk Products:
1. Monthly and daily purchases of packaged product.
2. Monthly and daily unsaleable returns (thrown out).
3. Opening and closing inventories (packaged and bulk product).
4. Finished Products Test Reports,
5. Any other product analysis reports.
6. Production reports
7. Sales invoices / sales summaries

4.5.2. Industrial Milk Products:
1. Opening and closing inventories (bulk product only).
2. Production reports and/or vat records.
3. Documentation relating to expected yields based on plant formulas to compare with yield calculated for audit period.
4. Finished Products Test Reports
5. Any other product analysis reports.

4.5.3. Inter-plant Transfers:
1. Examine individual plant invoices for volume and fat content of bulk milk and cream shipments both within and outside the province.
2. Ensure classification of transfers reflect product's end-use.
3. Communicate with the appropriate inspectors concerning inter-plant transfers.

4.5.4. Audit Procedure

- Verify sales of milk, cream, condensed milk.
- Verify end use of bulk products as declared.
- Following the allocation by litres of products to their proper classification, verify applicable components in the manufacture of these products.

How components are determined:
- Components are determined by laboratory tests performed on milk samples provided by the milk producers or on load samples. The results of the tests combined with the information regarding the litres and butterfat reported by the processors are used in the pure skim formula to calculate the component weights of protein and other solids of the various classes of milk. Please see appendix G for example.

- The total skim milk powder, MPC, rennet casein and any other milk products used in production of dairy or fluid milk products must be recorded, since yields are affected by these added solids.

- If milk and cream usage are recorded in weight, they must be converted to volume based on the agreed densities. See appendix F for methodology.

4.5.5. Audit Results

Compute the shrinkage or gain as to volumes of milk and applicable components. Shrinkage and gains will be allocated according to agreement of the appropriate regional milk pool. These are known as unaccountable losses (gains) as they occurred somewhere in the production process but are not easily measured. Where plant milk receipts are paid for based on meters or an allowance is given against dipsticks volumes, the fairest treatment of processing losses or gains is to prorate them to the production classes of the plant.

Upon completion of the audit, enter the adjusted utilization as compared to the reported utilization. Discuss the results with Plant Management. Retroactive audit adjustments are allowed only for two dairy years prior to the current period being audited. Retroactive adjustments related to permit transactions are limited to one year. There is no time limit for adjustments due to cases of suspected fraud.

The audit adjustment will be referred to the appropriate authority and copies made as required.

Any adjustments in milk components exceeding $100 in value must be adjusted in the plant’s milk invoice. Provinces may choose to process all adjustments.

4.6. Accountable Losses

There are losses that can be identified and supporting documentation is available to substantiate the loss. These are all classified in class 4(d). These losses must be reported as soon as possible to the inspector or producer representative. Cooler losses and out of code unsold products are generally not verifiable and are not an “accountable loss.”
4.6.1. Dead Vat
It is defined as the amount of milk in a vat, that during or shortly after processing, results in unsaleable product that must be destroyed. Losses due to a dead vat must be reported as soon as possible to the inspector and producer representative.

4.6.2. Other (e.g. valve losses)
Milk lost assuming the volume is known and it is documented.

4.6.3. Fluid Returns
Fluid products that are returned and considered unsaleable (e.g. out of code) after being sold are to be credited against sales and are priced in 4(d). This assumes the returned product is disposed and not re-utilized.

The plant can record whether the returned fluid products were disposed of or used as animal feed.

If products are thrown out or disposed of, the production records of the plant should have the initials of the person in charge of the operation and those of a supervisor. If the products are used as animal feed, the person who receives the product should sign a receipt.

4.6.4. Shrinkage and Gains
Method of charging plant losses and gains to classes should be consistent with that established by the regional milk pool and in accordance with any applicable legislation. Gains are an indication of errors in reporting and should be investigated if sustained for more than a month.

4.7. Classification

4.7.1. Final Product Form
Dairy Products shall be classified according to their final product form in the plant of manufacture in accordance with Appendix A. Concentrated and evaporated milk are exceptions if not in final product form (per Western Milk Pool).

4.7.2. Marble Cheese
The variety of cheese is not recognized under existing Federal Regulations, thus the milk must be classified according to the actual varieties and proportions of cheese used to make the product.

4.7.3. Other Products
In the event that the inspector is uncertain as to the classification of a product manufactured in a plant, the inspector is to request written clarification from the appropriate Committee.

4.7.4. Movement of Bulk Milk
Plants moving bulk milk or cream to other processing plants will declare this volume in the class based on its end use in the receiving plant or in a transfer class which is the same as that used for the transfer in by the receiving plant.

4.8. Inter-provincial Milk Movement
Proper documentation and communication will be maintained to be able to track inter-provincial movement of milk monthly and an appropriate paper trail will be created.
## Appendix A – Harmonized Milk Classification System

[Link](http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811)

<table>
<thead>
<tr>
<th>Class</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1(a)</td>
<td>Milk and milk beverages, partly skimmed or skimmed, whether or not treated for lactose intolerance, whether flavoured or not, with or without vitamins or minerals added, for Retail and Food Service. Egg nog, cordials, cultured milk, concentrated milk to be reconstituted as fluid milk.</td>
</tr>
<tr>
<td>1(b)</td>
<td>All types of cream with a butterfat content not less than 5% for Retail and Food Service.</td>
</tr>
<tr>
<td>1(b)ii</td>
<td>Fresh cream with a butterfat content of 32% and higher used to make fresh baked goods which are not eligible for a Class 5 permit. Any utilization in this class would require a Class 1(b)ii permit.</td>
</tr>
<tr>
<td>1(c)</td>
<td>New 1(a) and 1(b) fluid products for Retail and Food Service as approved by the provincial authorities during an introductory period.</td>
</tr>
<tr>
<td>1(d)</td>
<td>1(a) and 1(b) fluid products marketed outside the ten signatory provinces but within the Canadian boundaries, (e.g.: Yukon, NWT, Nunavut &amp; cruise ships).</td>
</tr>
<tr>
<td>2(a)</td>
<td>All types of yogurts including yogurt beverages, Kefir and Lassi, excluding frozen yogurts</td>
</tr>
<tr>
<td>2(b)</td>
<td>All types of ice cream, ice cream mix, whether frozen or not, Other frozen dairy products including frozen yogurts, All types of sour cream, All types of milk shake mixes The following products: fudge, puddings, soup mixes, caffeinate and Indian sweets</td>
</tr>
<tr>
<td>3(a)</td>
<td>All cheeses other than those identified in Class 3(b), Class 3(c) and Class 3(d)</td>
</tr>
<tr>
<td>3(b)</td>
<td>All types of cheddar cheese, stirred curd, cream cheese, creamy cheese bases (cheese mixes), cheddar and cheddar-type cheeses sold fresh (see definition³).</td>
</tr>
<tr>
<td>3(c)</td>
<td>All types of Mozzarella except when declared in Class 3(d)⁴, Asiago, Brick, Canadian Style Munster (Muenster), Colby, Farmer, Feta, Gouda, Havarti, Jack, Monterey Jack, Parmesan, Swiss</td>
</tr>
<tr>
<td>3(d)</td>
<td>Standardized mozzarella cheeses to be used strictly on fresh pizzas by establishments registered with the CDC under terms and conditions approved by the CMSMC.</td>
</tr>
<tr>
<td>4(a)</td>
<td>All types of butter and butteroil, all types of powder, concentrated milk as an ingredient in the food industry, all other products not elsewhere stated.</td>
</tr>
<tr>
<td>4(a)¹⁵</td>
<td>Milk components for the manufacture of rennet casein (dry or curd), Milk Protein Concentrate (dry or liquid) or Skim Milk (dry or liquid) to be used in the manufacture of non-standardized final products in the processed cheese category.</td>
</tr>
<tr>
<td>4(b)</td>
<td>Concentrated milk for retail sale whether sweetened or not.</td>
</tr>
</tbody>
</table>

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³ Definition of cheddar-type cheese: “A cheese of descriptive nomenclature will be recognized as a cheddar-type cheese for the purposes of classification if it is a firm or semi-soft, unripened, unwashed curd cheese, with a minimum milk fat content of 25% and a maximum moisture content of 45%.”

⁴ Type of Mozzarella includes but are not limited to Part skim Mozzarella, Part skim Pizza Mozzarella, Pizza Mozzarella.

⁵ - Audit of Class 4(a)¹ will be performed by the usual organizations responsible to perform that task in the provinces. In the case of interprovincial movement of product, the CDC will coordinate the audit and supporting information with provincial auditors. The processor receiving the raw milk used to make rennet casein (dry or curd), Milk Protein Concentrate (dry or liquid) or Skim Milk (dry or liquid) under Class 4(a)¹ will be responsible for providing documentation which supports the claim that the components were utilized in the manufacture of non-standardized final products in the processed cheese category. Participating provinces will undertake to implement the proper audit procedures to ensure compliance within this class.

- All eligible products must be blended and mixed in the presence of emulsifying salts and heat with natural cheese and/or other dairy products/ingredients in the manufacture of the final product in the processed cheese category. The processed cheese product so-produced must include either rennet casein, natural cheese, or a combination thereof and fall outside of the federal cheese standards for processed cheese or processed cheese food. The rennet casein and/or natural cheese used in the manufacturing process must be heated to its melting point (70 degrees C or higher) to allow the blending and mixing with other dairy products and ingredients to take place. The eligible product is not covered by the federal cheese standards.
<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 (c)</td>
<td>New industrial products as approved by provincial authorities for an introductory period.</td>
</tr>
<tr>
<td>4 (d)</td>
<td>Inventories and losses (Explained losses: dumps, fluid returns, dead vats, etc.)</td>
</tr>
<tr>
<td>4 (m)</td>
<td>Milk components for marginal markets as established from time to time by the CMSMC.</td>
</tr>
<tr>
<td>5(a)</td>
<td>Cheese used as ingredients for further processing for the domestic and export markets.</td>
</tr>
<tr>
<td>5(b)</td>
<td>All other dairy products used as ingredients for further processing for the domestic and export markets.</td>
</tr>
<tr>
<td>5(c)</td>
<td>Dairy products used as ingredients for the confectionery sector destined for domestic and export markets.</td>
</tr>
<tr>
<td>5(d)</td>
<td>Planned exports and other exports approved by the CMSMC, the total of which shall not exceed Canada’s WTO commitments.</td>
</tr>
</tbody>
</table>

Last revision on January 22 and 23, 2014
### Appendix B – Sample Milk Utilization Report

<table>
<thead>
<tr>
<th>Milk Purchases</th>
<th>Litres</th>
<th>Kg B.F.</th>
<th>Kg Protein</th>
<th>Kg Other Solids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased From Producers and/or Board</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus Purchased From Other Plants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Sales To Other Plants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus Class 4(d) Opening Inventory bulk milk &amp; cream, raw, fluid and liquid,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pack product *</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Class 4(d) Closing Inventory (Bulk)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Milk Purchases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk and/or Cream Used In:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 1: Fluid milk and cream, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 1(a): Various Milks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 1(b): Various Creams</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 1(b)ii: Fresh cream with butterfat &gt; 32% used in fresh baked goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 1(c): New 1(a) + 1(b) fluid products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 1(d): 1(a) + 1(b) fluid products sold in Yukon, NWT, Nunavut &amp; cruise</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ships</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Class 2: Sour Cream, Yogurt, Cultured Products, Ice Cream, Frozen Yogurt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and Other Frozen Products, Meal Replacement Beverages, Soup Bases,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Puddings, Whipped Milk, Kefir and Infant Formulas, Indian Sweets, Fudge</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 3: Cottage Cheese, Speciality Cheeses And Fresh Curd And</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheddar like products that are sold fresh, Cheddar cheeses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 3(a): All cheeses other than those identified in class 3(b). All types</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>of cheese curds other than stirred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 3(b): All types of Cheddar, stirred curd, cream cheese and creamy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cheese bases</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Class 4: Butter, whole milk powder, condensed &amp; evaporated milk etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 4(a): Butter &amp; butteroil, all powders concentrated milk as an</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ingredient, all other products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 4(a)1: Milk components for manufacture of rennet casein (dry or</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>curd) or milk protein concentrate to make final non-standardized products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in the processed cheese category.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 4(b): Concentrated milk for retail sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 4(c): New industrial products for trial period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 4(d): Inventory and losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 4(m): Milk for marginal markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 5(a): Cheese as ingredients for Further processing (FP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 5(b) : All other dairy products used as ingredients in FP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 5(c): Dairy products used as ingredients in Confectionary Processor</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 5(d): Planned exports within WTO commitments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL OF ALL CLASSES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNEXPLAINED LOSSES (GAINS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Plant</th>
<th>Date</th>
<th>Certified By</th>
</tr>
</thead>
</table>

* In Quebec, packaged fluid product is declared in Class 1. Note: Losses or gains are prorated to production classes.
Appendix C – Audit Procedure Check List – Industrial Plant

INDUSTRIAL PLANT
AUDIT PROGRAM - CHECK-LIST

<table>
<thead>
<tr>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Trace purchases from the Board and from other sources to monthly invoices. Inquire as to whether there are any dairy products including milk* and cream received under the Import for Re-Export Program (IREP) or especially if exports are done using domestic milk under 5(d) permits. IREP milk is excluded from utilization reporting.</td>
</tr>
<tr>
<td>2. Trace opening and closing inventories of bulk milk and cream to plant month-end inventory reports and check footings.</td>
</tr>
</tbody>
</table>
| 3. Examine evidence to support use of milk for the various classes in the plant production process.  
  a) – Trace to monthly production record (Computer Print-Out)  
  b) – Trace monthly production record to individual vat/churning or other production records and examine for authenticity, alteration, etc. |
| 4. Examine evidence to support transfers of raw cream or milk to another.  
  a) – Trace to monthly sales summary, transfer summary records  
  b) – Trace monthly summary record to individual sales invoices, transfer forms or other initial record showing volume and butterfat and examine for authenticity, alterations, etc. |
| 5. Compute actual % yield and compare to industry standards and/or plant historical records, investigate significant variances. |
| 7. Obtain available laboratory reports, note B.F. content and compare to industry standards, investigate significant variances. |
| 8. Verify butterfat used in standardization of cheeses and enter into reconciliation. |
| 9. Verify supporting documentation available for special class milk declaration. Review invoices and ensure permit # is quoted and permit is valid for product claimed. |
| 10. Compute butterfat usage in litres and components and determine unaccountable quantity, investigate significant quantity differences. Where appropriate, ensure proper use of skim formula to establish protein and other solids. |
| 11. Compute milk usage and determine unaccountable quantity; investigate significant quantity differences.  
  a) – Ensure treatment of plant losses and unaccountable losses and gains are in accordance with appropriate revenue pool principles. |
| 12. Note any errors to be billed / credited to processor and provide appropriate supporting documentation to the plant. |
| 13. For any 4(a)1 transactions declared ensure butterfat does not exceed 2% and appropriate information is gathered and sent for reconciliation with production of non-standardized final products in the processed cheese category. |
| 14. Note period covered by this audit. |

*Milk includes skim milk and partially skimmed milk.
### Appendix D – Audit Procedure Check List – Fluid Plant

**FLUID PLANT**

**AUDIT PROGRAM - CHECK-LIST**

1. Trace purchases from the Board and from other sources to monthly invoices: Inquire as to whether there are any dairy products including milk* and cream received under the Import for Re-Export Program (IREP) or especially if exports are done using domestic milk under 5(d) permits. IREP milk is excluded from utilization reporting.

2. Validate transfers into or out of the plant to shipping documents and / or invoices and communicate with other provincial auditors as required.

3. Trace opening and closing inventories of bulk milk and cream to plant month-end inventory reports.

4. Examine evidence to support use of milk in net litres:
   a) Trace to monthly sales summary record.
   b) Trace monthly summary to driver load sheets, sales invoices or other initial sales records and examine for authenticity, alterations, etc.
   c) Examine kg / hl conversion using density chart (Appendix F).
   d) Trace monthly summary to individual purchase invoices for product bought from 3rd party.

5. Examine evidence to support transfers in litres to another plant operations.
   a) Trace to monthly sales summary, transfer summary records
   b) Trace monthly summary record to individual sales invoices, transfer forms or other initial record showing volume and butterfat and examine for authenticity, alterations, etc. Determine protein and other solids using the pure skim formula or standards.

6. Test product yield, over-runs and compare to standards or historical experience of plant, investigate significant differences

7. Ensure flavor additive (i.e. chocolate, etc.) is excluded from milk declaration based on recipe or accepted standards

8. Ensure fluid returns and cooler losses are properly supported by reports

9. Ensure extraordinary losses are supported by producer approved documentation

10. Examine evidence to support use of milk and other ingredients in net litres by processor to produce secondary products

11. Prepare "reconciliation report" basis audited plant utilization figures and check footings; Obtain laboratory reports on finished product testing and compute average B.F.; use average test to test B.F. content on audited milk utilization; ensure conversion of litres to butterfat (kg) agrees with specific gravity factor. (Appendix E)

   *Note: Product standard butterfat gains or losses tests may be used for packaged fluid products.*

12. Determine unaccountable butterfat quantity (protein and other solids where applicable), and investigate significant quantity differences.

13. Compare current plant losses with historical experience. Ensure treatment of plant losses and unaccountable losses are in accordance with appropriate pool revenue principles.

14. Verify supporting documentation available for special class milk declaration. Review invoices and ensure permit # is quoted and permit is valid for product claimed.

15. Note any errors to be billed / credited to processor and provide appropriate supporting documentation to the plant.

16. Note period covered by this audit.

*Milk includes skim milk and partially skimmed milk*
### Appendix E - Density Calculation Formula

**DENSITY CALCULATION @ 4 DEGREES CELSIUS**

- **AVERAGE DENSITY OF BUTTERFAT** = 0.95260
- **AVERAGE DENSITY OF SKIM** = 1.0355*

**THEREFORE:**

1. kg of product \* BF Test = kg of butterfat
2. kg of product - BF kg = theoretical skim
3. kg of butterfat / 0.95260 = litre value
4. kg of theoretical skim / 1.0355 = litre value
5. Total of BOTH litre values = product litre @ 4 Celsius
6. kg of product / product litre = DENSITY FACTOR

**CALCULATION:**

IF the kg of product is 1,000

IF the butterfat test of product = 35.00

1. 1,000 \* 0.35 = 350.00 = kg butterfat
2. 1,000 - 350.00 = 650.00 = theoretical skim
3. 350.00 / 0.95260 = 367.42 = litre value
4. 650.00 / 1.0355 = 627.72 = litre value
5. = 995.14 = product litre
6. 1,000 / 995.14 = 1.00488 = DENSITY FACTOR

**Product Test X Density = 35.1708 = kg/hl Test**

*Skim density factor revised by CMSMC Dec. 13, 2006*
## Appendix E-1 – Estimated BF at 4 °C Test for Fluid Products

<table>
<thead>
<tr>
<th>Product</th>
<th>Estimated BF (kg per hl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homo (3.25%)</td>
<td>3.36</td>
</tr>
<tr>
<td>2%</td>
<td>2.07</td>
</tr>
<tr>
<td>1%</td>
<td>1.03</td>
</tr>
<tr>
<td>Skim</td>
<td>0.10</td>
</tr>
<tr>
<td>10% Cream</td>
<td>10.27</td>
</tr>
<tr>
<td>18% Cream</td>
<td>18.35</td>
</tr>
<tr>
<td>35% Cream</td>
<td>35.17</td>
</tr>
</tbody>
</table>

Revised per CMSMC decision Dec 13, 2006.
Appendix F – Density Formula

The formula for calculating density to be used in converting a weight of milk or cream to volume is as follows:

\[
\text{Density} = \frac{1}{(\text{Skim content} / \text{Skim Density}) + (\text{BF test} / \text{BF Density})}
\]

In order to use the formula properly the following conventions must be followed:

Skim content = (1 – Butterfat test). For example the Skim content of 35% cream is 1 - .35 = .65

Skim Density = 1.0355*

Butterfat Density = 0.95260

**EXAMPLE:**

The density of 35% cream is:

\[
1 / ((.65 / 1.0355*) + (0.35 / .9526))
\]

= 1 / (.627716 + .36742)

= 1 / .99514

= 1.00488

In order to determine the volume of cream at this butterfat content it is necessary to divide the weight of the cream by the density.

**EXAMPLE:**

15,333 kg of cream at 35%

= 15,333 / 1.00488

= 15,238 litres

* Skim density factor revised by CMSMC Dec 13, 2006

---

6 Source: Ontario Milk Utilization Declaration and Verification Manual
Appendix G – Pure Skim Formula\(^7\)

Required information from the Milk Utilization Report
1. Total litres delivered to plant.
2. Total kilograms of butterfat, protein and other solids received by plant based on either producer samples or load samples.
3. Litres utilized in each class.
4. Kilograms of butterfat utilized in each class.

**Formula overview**

Underlying assumptions:

The density of butterfat = 0.9526 kg/litre
The above density implies that one kilogram of butterfat occupies 1.0498 (1 / 0.9526) litres.

Estimation procedure:
1. Determine the protein and other solids test values for the pure (0% butterfat content) skim milk which could be produced from the raw milk delivered to the plant.
2. Determine the pure skim milk equivalent of the litres declared in each class.
3. Multiply the pure skim milk equivalent for each milk class by the protein and other solids test values determined in step 1 to estimate the class usage of protein and other solids.

An example:
The processor receives 1,000 litres.
The total butterfat received is 40 kg.
The total protein received is 33 kg.
The total other solids received is 58 kg.

The utilization as declared by the processor, example:

<table>
<thead>
<tr>
<th>Class</th>
<th>Litres</th>
<th>BF kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>800</td>
<td>16</td>
</tr>
<tr>
<td>4</td>
<td>200</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>1,000</td>
<td>40</td>
</tr>
</tbody>
</table>

Calculations for the above example:
1. (a) Processor pure skim protein test = total protein kg / (total litres - butterfat kg/0.9526)
   = 33 / (1,000 - 40/0.9526)
   = 33 / (1,000 - 41.990342)
   = 33 / 958.009658
   = 0.034446 kg/litre

---

\(^7\) Source: “Ontario Milk Utilization Declaration and Verification Manual.”

Milk Utilization Audit Standards
Appendix G (Cont’d)

(b) Processor pure skim other solids test = total other solids kg / (total litres - butterfat kg/0.9526)
   = 58 / (1,000 - 40/0.9526)
   = 58 / (1,000 - 41.990342)
   = 58 / 958.009658
   = 0.060542 kg/litre

2. (a) Skim milk equivalent of class 2 = volume utilized - butterfat utilized / 0.9526
   = 800 litres - 16 kg / 0.9526
   = 800 - 16.796137
   = 783.2 litres

(b) Skim milk equivalent of class 4 = 200 litres - 24 kg / 0.9526
   = 200 - 25.194205
   = 174.8 litres

3. (a) Class 2 protein usage = Skim milk equivalent of class 2 multiplied by the processor pure skim protein test
   = 783.2 litres x 0.034446 kg/litre
   = 27 kg.

(b) Class 2 other solids usage = Skim milk equivalent of class 2 multiplied by the processor pure skim other solids test.
   = 783.2 litres x 0.060542 kg/litre
   = 47 kg

(c) Class 4 protein usage = Skim milk equivalent of class 4 multiplied by the processor pure skim protein test
   = 174.8 liters x 0.034446 kg/litre
   = 6 kg

(d) Class 4 other solids usage = Skim milk equivalent of class 4 multiplied by the processor pure skim other solids test
   = 174.8 x 0.060542 kg / litre
   = 11 kg

Completed Processor Utilization for Billing:

<table>
<thead>
<tr>
<th>Class</th>
<th>Litres</th>
<th>BF kg</th>
<th>Prot. kg</th>
<th>O/S kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>800</td>
<td>16</td>
<td>27</td>
<td>47</td>
</tr>
<tr>
<td>4</td>
<td>200</td>
<td>24</td>
<td>06</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>1,000</td>
<td>40</td>
<td>33</td>
<td>58</td>
</tr>
</tbody>
</table>

Some provinces use test constants to determine the protein and other solids kilograms for classes 1(a), 1(b) and 1(c). These constants are updated periodically based on actual provincial utilization of components in Classes 1(a), 1(b), and 1(c).
Appendix H – Canadian Dairy Commission Act C15

ENFORCEMENT

17. (1) The Commission may appoint or designate any person as an inspector for the purposes of this Act.

(2) The Commission shall furnish every inspector with a certificate of appointment or designation and on entering any place under subsection 18(1) an inspector shall, if so required, produce the certificate to the person in charge of that place.

R.S., c. C-7, ss. 18, 19.

18. (1) Subject to subsection (1.1), an inspector may at any reasonable time

(a) enter any place in which the inspector believes on reasonable grounds there is any regulated product; and

(b) require any person to produce for inspection, or for the purpose of obtaining copies thereof or extracts therefrom, any books, records or documents relating to that product

(1.1) Where any place referred to in paragraph (1)(a) is a dwelling-house; an inspector may not enter that dwelling-house without the consent of the occupant except under the authority of a warrant issued under subsection (1.2).

(1.2) Where on ex parte application a justice of the peace is satisfied by information on oath

a) that the conditions for entry described in paragraph (1)(a) exist in relation to a dwelling-house,

b) that entry to the dwelling-house is necessary for any purpose relating to the administration or enforcement of this Act, and

c) that entry to the dwelling-house has been refused or that there are reasonable grounds for believing that entry thereto will be refused, the justice of the peace may issue a warrant under his hand authorizing the inspector named therein to enter that dwelling-house subject to such conditions as may be specified in the warrant.

(1.3) In executing a warrant issued under subsection (1.2), the inspector named therein shall not use force unless the inspector is accompanied by a peace officer and the use of force has been specifically authorized in the warrant.

(2) The owner or persons in charge of any place referred to in subsection (1) and every person found in that place shall give the inspector all reasonable assistance to enable the inspector to carry out his duties and functions under this Act and shall furnish the inspector with any information he may reasonably require with respect to any regulated product found in that place.

R.S., 1985, c. C-15, s. 18; R.S., 1985, c. 31 (1st Supp), s. 4.

19. No person shall obstruct or hinder, or make any false or misleading statement either orally or in writing to, an inspector engaged in carrying out his duties or functions under this Act or any regulation made under this Act.

R.S., c. C-7, s. 20.
Appendix I – Processors Paying Producers Directly

Producer Pay Audit Procedures

FARM MILK TRUCK PROCESSOR

- sample for milk quality
- sample for producer component test
- record milk receipts

MILK QUALITY LAB

- agree to plant receiving reports
- examine inter-plant invoices, verifying litres to receiving report and components to lab test
- for inter-provincial transfers, verify litres and components with other provincial agency.

Production

Industrial
- examine inventory records (raw milk)
- examine production records
- finished product test reports
- analytical review

Class 1 Products
- audit dairy BF tests
- examine production records
- examine sales records
- examine inventory records
- packaged product purchases
- product returned

Class 5 Products
- examine production records
- examine sales invoice
- examine permit listing

Audit Adjustments
- verify accuracy of quota calculation, prices paid, and producer deductions
- verify milk deliveries to pick-up slips
- verify components shipped by verifying component tests to lab tests
- confirm producer payment to cash disbursement journal / bank records

MILK TRANSFERS UTILIZATION REPORT

- examine production records
- examine sales records
- examine permit listing

FARM PROCESSOR MILK TRUCK

- verify accuracy of quota calculation, prices paid, and producer deductions
- verify milk deliveries to pick-up slips
- verify components shipped by verifying component tests to lab tests
- confirm producer payment to cash disbursement journal / bank records

MILK QUALITY LAB
Appendix J – Has been replaced by Appendices O and P
Subject: Illustrative example of Class 5 utilization reporting including the prorating of plant losses

The attached example is of a processing plant that receives 1 million litres of milk in the month, produces 90,000 kgs of skim milk powder (SMP) and experiences an unexplained loss of 61,330 litres; 1,025 kg of butterfat; 2,124 kg of protein and 3,524 kilograms of other solids. 83,670 litres of Cream from skim off is used for the production of butter, also under Class 4A. These processing losses are to be prorated – per national audit standard. The plant has sales under Special Class (Class5) of 70,000 kgs of SMP for the month.

For illustration purposes the utilisation report is completed in stages as follows:

1) Calculation of losses to be allocated
2) Allocation of the loss to the various classes
3) Determine the Special Class declaration – 70,000 kg of the 90,000 kg (77.78%) of SMP produced in Class 4A should be declared in class 5B.

The following schedules illustrate the three steps in the process.
### ABC Processor
#### Utilization Report - Before Loss Allocation & Class 5 Re-Allocation

<table>
<thead>
<tr>
<th>Component Tests</th>
<th>3.74%</th>
<th>3.49%</th>
<th>5.79%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>Litres</td>
<td>Test</td>
<td>Butterfat</td>
</tr>
<tr>
<td>From Registered Producers</td>
<td>1,000,000</td>
<td>3.74%</td>
<td>37,425</td>
</tr>
<tr>
<td>From Other Registered Plants</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Sales To Other Provinces</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Sold To Other Registered Plants</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk Purchased From Other Provinces</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rejected Milk at plant</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk in Transit</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Meter Reporting</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Out of Province Export</td>
<td>0</td>
<td>XXXXXXXX</td>
<td>0</td>
</tr>
<tr>
<td>Net Registered Purchases</td>
<td>1,000,000</td>
<td>XXXXXXXX</td>
<td>37,425</td>
</tr>
</tbody>
</table>

| Class 1 | 0 | 0 | 0 | 0 | 0 |

#### Milk Used In Classes 2 To 5

<table>
<thead>
<tr>
<th>Class 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 3(a), Class 3(b)</td>
</tr>
</tbody>
</table>

| Class 4(a) | 83,670 | 35.17% | 29,425 | 1,972 | 3,270 |
| Class 4(b) | 810,000 | 0.75% | 6,075 | 29,221 | 48,468 |
| Class 4(a1) | 0 | 0 | 0 | 0 | 0 |
| Class 4(d) Class 1 returns dumped | 0 | 0 | 0 | 0 | 0 |
| Class 4(d) Inventory change | 45,000 | 2.00% | 900 | 1,603 | 2,659 |

| Class 5(a) | 0 | 0 |
| Class 5(b) | 0 | 0 | 0 |
| Class 5(c) | 0 | 0 |

<table>
<thead>
<tr>
<th>Class 5(d) Additional BF from Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of all Classes</td>
</tr>
</tbody>
</table>

| Unexplained losses & shrinkage | 61,330 | 1,025 | 2,124 | 3,524 |
### Appendix K (page 3/4)

**ABC Processor**

Allocation Of Unexplained Losses & Shrinkage before special class declaration.

<table>
<thead>
<tr>
<th></th>
<th>Class 4(a) - Butter Usage</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 4(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter Usage</td>
<td>83,670</td>
<td>29,425</td>
<td>1,972</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>5,742</td>
<td>850</td>
<td>134</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 4(a)</td>
<td>89,412</td>
<td>30,275</td>
<td>2,106</td>
</tr>
<tr>
<td></td>
<td>3,270</td>
<td>223</td>
<td>3,493</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Class 4(a) - SMP Usage</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 4(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMP Usage</td>
<td>810,000</td>
<td>6,075</td>
<td>29,221</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>55,588</td>
<td>175</td>
<td>1,990</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 4(b)</td>
<td>865,588</td>
<td>6,250</td>
<td>31,211</td>
</tr>
<tr>
<td></td>
<td>48,468</td>
<td>3,301</td>
<td>51,769</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Amount To Be Billed As Class 4(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Amount To Be Billed As Class 4(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Class 4(d) - Inventory Change</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 4(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Change</td>
<td>45,000</td>
<td>900</td>
<td>1,603</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 4(d)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2,659</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Class 5(a) Usage</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 5(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 5(a)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Class 5(b) Usage</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 5(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 5(b)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Class 5(c) Usage</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 5(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 5(c)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Class 5(d) Usage</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As Class 5(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unexplained loss distribution</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount To Be Billed As Class 5(d)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total Billed</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000,000</td>
<td>37,425</td>
<td>34,920</td>
</tr>
<tr>
<td></td>
<td>57,921</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Difference</th>
<th>Unexplained loss distribution</th>
<th>Amount To Be Billed As</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
### Appendix K (page 4/4)

**ABC Processor**

**Utilization Report - After Loss Allocation & Class 5 Re-Allocation**

<table>
<thead>
<tr>
<th>Kgs of SMP sold in Class 5</th>
<th>SMP production</th>
<th>Class 5(b)</th>
<th>Class 4(a)</th>
<th>BF of Skim</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>70,000</td>
<td>90,000</td>
<td>77.78%</td>
<td>22.22%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component Tests</th>
<th>3.74%</th>
<th>3.49%</th>
<th>5.79%</th>
</tr>
</thead>
<tbody>
<tr>
<td>From Registered Producers</td>
<td>1,000,000</td>
<td>3.74%</td>
<td>37,425</td>
</tr>
<tr>
<td>From Other Registered Plants</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Sales To Other Provinces</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Sold To Other Registered Plants</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk Purchased From Other Provinces</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rejected Milk at plant</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk in Transit</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Meter Reporting</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Out of Province Export</td>
<td>XXXXXXXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Registered Purchases</td>
<td>1,000,000</td>
<td>XXXXXXXX</td>
<td>37,425</td>
</tr>
</tbody>
</table>

| Class 1 Sales | 0 | 0 | 0 | 0 |
| Milk Used In Classes 2 To 5 |

| Class 2 - Cream Transfer Out | 0 | 0 | 0 | 0 |
| Class 3(a) | 0 | 0 |
| Class 3(b) | | |

| Class 4(a) - Butter | 89,412 | 30,275 | 2,106 | 3,493 |
| Class 4(a) - SMP | 192,353 | 1,389 | 6,936 | 11,504 |
| Class 4(a1) | 0 | 0 |
| Class 4(d) Class 1 returns dumped | 0 | 0 |
| Class 4(d) Inventory change | 45,000 | 900 | 1,603 | 2,659 |

| Class 5(a) | 0 | 0 |
| Class 5(b) | 673,235 | 4,861 | 24,275 | 40,265 |
| Class 5(c) | 0 | 0 |
| Class 4(m) | 0 | 0 |
| Class 5(d) Additional BF from Import | | | | |

| Total of all Classes | 1,000,000 | 37,425 | 34,920 | 57,921 |

| Unexplained losses & shrinkage | 0 | 0 | 0 | 0 |
## Appendix L: Monthly DDPIP/DIP Reporting Template

### Domestic Dairy Product Innovation Program

**Monthly Milk Deliveries Report**

<table>
<thead>
<tr>
<th>Activity Month</th>
<th>Contract #</th>
<th>Company Name</th>
<th>Milk Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-2011</td>
<td>xxx-xx</td>
<td>Innovative Product</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Milk Deliveries Summary ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Litres of Raw Milk</td>
</tr>
<tr>
<td>10,030</td>
</tr>
</tbody>
</table>

\[(7) \times (d) = (8)\]

**Notes:**

1) This report should be completed by the 15th day of the month following the activity and should be submitted to Shana Allen (Shana.Allen@CDC-CCL.GC.CA) and Chantal Laframboise (Chantal.Laframboise@CDC-CCL.GC.CA).

2) The Milk Deliveries Summary represents the liters of raw milk delivered based on "first use" for the expressed purpose of manufacturing the innovative dairy product. This quantity of butterfat is calculated as the required number of liters of raw milk multiplied by the average butterfat test for all milk deliveries for the plant.

3) For any previous period adjustment or correction, indicate the activity month and the correct information. The previously reported entry will be replaced with the correct data in the CDC database.
Appendix M: Conversion from End-Use Volume to First Use Volume using the Pearson Square Formula

The Pearson Square formula is a simple method of adjusting the fat concentration of milk to make a specific dairy product by calculating the amounts of cream and skim milk that need to be mixed together to give the desired BF content of the product. The formula is based on the principle that: 1- the sum of the kilos of butterfat contained in the cream and in the skim milk is equal to the total BF Kg in the final product, and 2- the sum of the volumes of skim milk and of cream is equal to the volume of the product. Solving these two equations can be done using the rectangle below.

At the centre of the rectangle is the desired BF content of the final product. At the upper left hand side of the rectangle is the BF test of cream and at the bottom left hand corner is the BF content of skim milk.

**Example:**

1- **Model Input**

<table>
<thead>
<tr>
<th>Monthly DDPIP Information Required</th>
<th>Product Information Required</th>
<th>Constants$^8$</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-Use Volume</td>
<td>10,000 Litres of product</td>
<td></td>
</tr>
<tr>
<td>End-Use Butterfat</td>
<td>380 Kg of BF</td>
<td></td>
</tr>
<tr>
<td>End-Use BF Test</td>
<td>3.8 Kg/hl</td>
<td></td>
</tr>
</tbody>
</table>

| Raw Milk Information Required     |                             |               |
| Raw Milk Butterfat Test at the plant | 3.9 Kg/ hl  |               |

$^8$ Standard BF test for Cream at 37.5kg/hl is acceptable for monthly reporting as long as it is reconciled with actual BF test at the end of the year.
2- Pearson Square Calculation

| Cream at 37.5kg/hl BF content | Parts of Cream = (3.8-0.05)=3.75 = (3.9-0.05)=3.85 |
| Skim Milk at 0.05kg/hl BF content | Parts of Skim Milk = (37.5-3.8)=33.7 = (37.5-3.9)=33.6 |

BF content in Product (Raw Milk) 3.8kg/hl

BF content in Product (Skim Milk) 3.9kg/hl

BF difference cream vs. skim milk = 37.45

The total raw milk required to make the final product is the highest of the raw milk required to produce the skim milk or the raw milk required to make the cream.

<table>
<thead>
<tr>
<th>Final Product</th>
<th>Total Skim Milk Required to produce the Final Product</th>
<th>Raw Milk required to produce Total Skim Milk</th>
<th>Total Cream Required to produce the Final Product</th>
<th>Raw Milk required to produce Total Cream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Litres Skim</td>
<td>Litres Milk</td>
<td>BF Kg</td>
<td>Litres Cream</td>
<td>Litres Milk</td>
</tr>
<tr>
<td>Product Name</td>
<td>8,999</td>
<td>10,030</td>
<td>391</td>
<td>1,001</td>
</tr>
</tbody>
</table>

(1)=(a)*(i) (2)=(1)*(j) (3)=(2)/(3) (4)=(a)*(g) (5)=(4)*(h) (6)=(5)/(6) (7)=max((2),(5)) (8)=max((3),(6))

Maximum of (2)/(3) and (5)/(6)

The Total Raw Milk required

<table>
<thead>
<tr>
<th>Litres Milk</th>
<th>BF Kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,030</td>
<td>391</td>
</tr>
</tbody>
</table>

BF Test of Raw Milk delivered at the plant

<table>
<thead>
<tr>
<th>BF Test of Raw Milk delivered at the plant</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.9 kg/hl</td>
</tr>
</tbody>
</table>

The data on total raw milk required in the above table should match the data reported by the provincial board to the CDC.
Appendix N: Annual Audit Report on the Domestic Dairy Product Innovation Program (DDPIP)

DDPIP Contract #: _____xxxx-xx_
Plant Location (city and province): ____________

I have audited (verified) the milk allocated under the above-mentioned contract for the period of xxxx to xxxx

I ensured that the milk volume received and declared according to Appendix 1A, was required to produce Product Name, which is the innovative product eligible under this contract. The verification of milk volume utilization was based on the Pearson Square formula as described in the “milk utilization audit standards”.

I also ensured that there were no imported dairy ingredients used in the production of this product. The volume of milk processed was in accordance with the DDPIP agreement and the results are as follows:

Raw Milk Allocated (based on plant milk receipts)

Litres ______      _ _
Butterfat (Kilos) __________________
Period covered: fromxxxx toxxxx

_______________________________________
Date

________________________________________
Auditor’s Name          Signature
Appendix O: 4(a)1 and 4(m) MPC Audit request in a different province (between 2 provincial auditors)

Section 1 - General information
Province where the eligible product is manufactured: ____________________________________
Primary processor: __________________________________________
Auditor of the primary processor: ________________________________

Province where the eligible product is used: _______________________________________
Secondary processor: __________________________________________
Auditor of the secondary processor: ______________________________

Section 2 - Report on transfers

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible product</td>
<td>Delivery date</td>
<td>Quantity delivered</td>
<td>Number of transfer document</td>
<td>Verified and complies</td>
<td>Comments/corrections</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The primary processor's auditor must complete section 1 and columns A, B, C, and D of section 2.

When the audit of transactions is completed, the secondary processor's auditor must complete columns E and F of section 2 as well as section 3 and return the form to the primary processor's auditor.

Section 3 - Audit report

☐ I hereby confirm that the quantities of eligible product listed above were used according to the class 4(a)1 definition, i.e.: in the manufacturing of non-standardized finished products in the processed cheese category

OR

☐ I hereby confirm that the quantities of eligible product listed above were used according to the class 4(m) MPC definition, i.e.: in the manufacturing of standardized cheeses.

Auditor of the secondary processor: ________________________________
Date: ________________________________
Appendix P - Class 4(a)1 Audit report - Class 4(a)1 Components Audited Through End-use Verification of Eligible Products

Sent by the provincial auditor to the CDC and to the provincial board
(Semi-Annually: Aug 1st to Jan 31st and Feb 1st to July 31st)

Province: _______________ Period: ______________

<table>
<thead>
<tr>
<th>Month</th>
<th>Butterfat</th>
<th>Protein</th>
<th>Other solids</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Actual Components contained in the eligible products for which the end-use in non-standardized processed cheese products has been verified.

In accordance with article 3.7, we have audited all the above components, and concluded that:

- They were all used in eligible 4(a)1 finished products, based on review of production records, yields and manufacturing losses.
- They were not declared under Special Class, based on review of Special Class sales report of processed cheese provided by CDC

Provincial auditor: ________________________________

Date: ________________________________