

**Office of the Auditor General**  
Performance Audit Report

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**Grain Dealers Program**  
Michigan Department of Agriculture and Rural Development

December 2021

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The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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### *Performance Audit*

### *Grain Dealers Program*

### *Michigan Department of Agriculture and Rural Development (MDARD)*

**Report Number:**  
791-0240-21

**Released:**  
December 2021

MDARD's Grain Dealers Program administers the Grain Dealers Act (Public Act 141 of 1939, as amended) to regulate the storage, buying, and selling of farm produce. As of April 2021, MDARD licensed 188 grain dealers in Michigan, including 15 owned by out-of-state entities. The Farm Produce Insurance Authority (FPIA) employs MDARD to provide administrative services and to conduct audits of grain dealers to ensure compliance with program requirements and monitor grain dealers' financial stability. If a grain dealer becomes insolvent and unable to pay its obligations to the producer, MDARD audits the producer's loss claims and FPIA reimburses a percentage of the loss to the producer.

Audit Objective			Conclusion
Objective 1: To assess the effectiveness of MDARD's efforts to administer the Grain Dealers Program.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Documented guidance for grain dealer risk assessments is needed ( <a href="#">Finding 1</a> ).		X	Agrees
MDARD did not conduct 12 (8%) of 146 grain dealer audits within the required 12- to 18-month period, ranging from 1 to 9 months late ( <a href="#">Finding 2</a> ).		X	Agrees
MDARD did not ensure the timely submission of 11 (39%) of 28 monthly daily position reports from licensed grain dealers ( <a href="#">Finding 3</a> ).		X	Agrees

Audit Objective			Conclusion
Objective 2: To assess the effectiveness of MDARD's efforts to license grain dealers.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDARD did not ensure the completeness of 14 (67%) of 21 license applications prior to issuing grain dealer licenses ( <a href="#">Finding 4</a> ).		X	Agrees

Audit Objective			Conclusion
Objective 3: To assess the effectiveness of MDARD's efforts to validate producer loss claims.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.		Not applicable.	

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# OAG

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**Doug A. Ringler, CPA, CIA**  
Auditor General

December 21, 2021

Ms. Dru Montri, Chair  
Michigan Commission of Agriculture and Rural Development  
and  
Mr. Gary McDowell, Director  
Michigan Department of Agriculture and Rural Development  
Constitution Hall  
Lansing, Michigan

Dear Ms. Montri and Mr. McDowell:

This is our performance audit report on the Grain Dealers Program, Michigan Department of Agriculture and Rural Development.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

## ADMINISTRATION OF THE GRAIN DEALERS PROGRAM

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### BACKGROUND

The Grain Dealers Act (Public Act 141 of 1939, as amended) regulates the storage, buying, and selling of farm produce and provides for the licensing, regulating, and bonding of grain dealers. The Michigan Department of Agriculture and Rural Development's (MDARD's) Grain Dealers Program\* is responsible for ensuring compliance with the Act.

MDARD conducts four types of site audits to ensure grain dealers' inventory and finances are sufficient to meet their obligations: traditional audits\*, commodity audits\*, working capital audits\*, and internal control examinations\*. MDARD also performs closing audits on grain dealers that are discontinuing operations. MDARD performs a quarterly risk assessment of the grain dealers to determine the type of audit to conduct. Upon completing a risk assessment, MDARD assigns each grain dealer a priority ranking from 1 to 4 with 1 indicating a troubled grain dealer and 4 indicating a low-priority grain dealer as follows:

Ranking	Type of Grain Dealer	Description	Type of Monitoring
1 to 1.5	Troubled	Financial condition, identified concern(s), and/or significant changes in grain dealer operations or management render it hazardous to producers* and public.	Working capital audit every 0 to 6 months
2 to 2.5	Potentially troubled	Marginal problems identified, such as deteriorating financial condition, which may include material changes in grain dealer's operations or management.	Working capital audit every 6 to 12 months
3 to 3.5	Average priority	Grain dealer exhibits fluctuations in operations; however, there are no identifiable concerns that affect the financial condition of the grain dealer, or there have been no significant changes in its operations or management that appear to affect the grain dealer's financial condition.	Traditional audit every 12 to 15 months
4	Low priority	Grain dealer exhibits strong financial condition, there are no identified concerns, and there have been no significant changes in grain dealer's operations or management.	Traditional audit every 12 to 18 months

\* See glossary at end of report for definition.

Grain dealers are required to keep a complete and accurate daily position report\* (DPR) of the farm produce in their inventory covered by warehouse receipts\*, open storage\*, or price later agreements\*. DPRs must include the total dollar amount of loans against the grain dealer's grain inventory. Grain dealers are required to submit a DPR at the beginning of each month that includes all transactions completed in the previous month. MDARD is tasked with reviewing the DPRs to ensure the grain dealers' ability to cover their grain position each month.

Grain dealers use a desktop software application called ExamNet to physically measure grain inventory by calculating actual grain volume. MDARD uses ExamHand eZam software to examine grain dealer inventory and obligations.

**AUDIT OBJECTIVE**

To assess the effectiveness\* of MDARD's efforts to administer the Grain Dealers Program.

**CONCLUSION**

Moderately effective.

**FACTORS  
IMPACTING  
CONCLUSION**

- MDARD completed approximately 400 grain dealer audits between October 1, 2018 and May 31, 2021.
- Of the 30 grain dealer audits reviewed, MDARD followed up on 100% of the issues noted during the audits within 10 business days.
- MDARD timely submitted its fiscal year 2019 and 2020 annual legislative reports.
- MDARD established appropriate access for all 5 ExamHand eZam users.
- Reportable conditions\* related to further documenting guidance for the grain dealer risk assessment process, conducting timely site audits, and improving oversight of DPRs (Findings 1 through 3).

\* See glossary at end of report for definition.

## FINDING 1

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### **Additional guidance for conducting grain dealer risk assessments needed.**

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MDARD should further document its guidance for conducting quarterly and ongoing risk assessments to help ensure staff fully understand the risk assessment process.

MDARD conducts annual and ongoing risk assessments of grain dealers for the purpose of monitoring the grain dealers' financial stability. MDARD assesses risk based on an annual review of the grain dealers' financial statements, DPRs, license applications, and audit results; the grain industry's market conditions; and other factors. The ongoing risk assessment determines the type of monitoring MDARD performs, including traditional audits, working capital audits, internal control examinations, and closing audits.

Although MDARD consistently conducts annual and ongoing risk assessments, it should establish written procedures to:

- a. Better define and provide guidance on key terms, such as "deteriorating financial condition" and "significant change in operations or management", to assist MDARD staff in accurately evaluating risk. MDARD informed us it reviews up to 20 years of trends to determine whether a grain dealer's financial condition is deteriorating. However, MDARD did not document the parameters that define such condition, for example, a certain trend or percentage change in financial data.
- b. Enhance its risk assessment guidance documents to be more procedural in nature and define the specific metrics of the risk factors and how those risk factors correlate to the priority rankings. For example, MDARD's Grain Dealer Risk Analysis Factor procedure defines one risk factor as whether the current, earnings, and capitalization ratios could lead to an impairment of the grain dealer's financial condition. However, the procedure did not provide information on what the minimum or maximum ratios should be to enable staff to determine a precise priority ranking.
- c. Provide written guidance on the flexibility of conducting working capital audits. We reviewed 21 grain dealers who had an average ranking of 1.5 (troubled) to 2.5 (potentially troubled) over the 7 quarterly risk assessments conducted during our audit period and noted MDARD did not always conduct working capital audits on these grain dealers as guidance suggested. MDARD informed us if an initial working capital audit disclosed no identified issues, it may decide to not conduct another working capital audit on the grain dealer until it identified additional risks; however, there are no written policies for this circumstance.

MDARD informed us it is evaluating the benefits of performing working capital audits and the required training for conducting them.

Sound business practices necessitate the development of formal policies and procedures to ensure current and future MDARD employees can effectively perform risk assessments and properly monitor grain dealers at high risk of financial failure.

**RECOMMENDATION**

We recommend that MDARD further document its guidance for conducting quarterly and ongoing risk assessments to help ensure staff fully understand the risk assessment process.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDARD provided us with the following response:

*MDARD agrees with the recommendation. MDARD performs an in-depth risk analysis annually during the financial statement review. The risk analysis is updated with additional staff input sessions at least three times per year. Ongoing risk analysis is done throughout the year based on market conditions and any reports to the Grain Dealers Program raised by producers.*

*MDARD continues to strive to be the best producer security program in the country and will work to document processes and procedures more fully to continue to improve and adapt as the grain industry and business practices continue to change.*

## FINDING 2

**Site audits should be conducted within the required time frame.**

MDARD did not always conduct site audits of licensed grain dealers within the required 12- to 18-month period. Site audits help identify grain dealers that may not have the financial stability to pay their producer obligations.

A memorandum of understanding between MDARD and the Farm Produce Insurance Authority (FPIA) states that MDARD will conduct review services (site audits) at licensed grain dealer facilities every 12 to 18 months. MDARD may conduct reviews more frequently if a grain dealer is at a higher risk of financial failure. During the COVID-19\* pandemic in 2020, MDARD began conducting desk audits\* of the grain dealers when necessary.

Our review of 146 site audits and desk audits conducted between October 1, 2018 and May 31, 2021 disclosed 12 (8%) audits were not conducted within the 12- to 18-month time frame, ranging from 1 to 9 months late. This included 1 audit that had not been completed as of August 2021. For two (17%) of the 12 audits, the grain dealers are located in the Upper Peninsula and are audited biennially; however, MDARD conducted both audits approximately 8 months later than the standard 24-month period.

MDARD conducts a quarterly risk assessment on each grain dealer using a priority ranking of 1 for the highest risk and 4 for the lowest. MDARD ranked 3 (25%) of the 12 grain dealers without a timely audit with a 2.5 score, indicating they were at high risk for financially failing as follows:

<u>Priority Ranking</u>	<u>Risk Level</u>	<u>Number (Percentage) of Late Grain Dealer Audits</u>
1 to 2.5	High risk	3 (25%)
3 to 3.5	Average risk	9 (75%)
4	Low risk	0 ( 0%)
Total		<u>12 (100%)</u>

MDARD informed us it did not conduct timely site audits and desk audits because of COVID-19 restrictions.

## RECOMMENDATION

We recommend that MDARD conduct site audits of licensed grain dealers within the required 12- to 18-month period.

## AGENCY PRELIMINARY RESPONSE

MDARD provided us with the following response:

*MDARD agrees with this finding and recommendation. MDARD agrees that, during the audit period, audits should have been completed in 12 to 18 months.*

\* See glossary at end of report for definition.

*Due to the COVID-19 pandemic, it was not possible to complete the audits in the 12 to 18 months as MDARD had to pivot due to in person work being restricted. MDARD placed a stronger emphasis on high risk-based audits, inventory control exams, where it doubled the number completed from the previous year, and conducted desk audits when feasible. In addition, some of the audit exceptions noted were during the COVID-19 emergency order period when the program auditors were on furlough, auditors were quarantined, and multiple staff were assigned to COVID-19 Incident Management Teams.*

*During the COVID-19 pandemic, MDARD placed a stronger emphasis on working with licensees to navigate COVID-19 barriers at their facilities regarding staffing, office hours, and other external circumstances at facilities that lead to the decisions to delay the audits.*

*The Grain Dealers Program returned to 97% compliance by April 30, 2021 and 100% compliance by August 30, 2021, for all audits being completed within 18 months. The program is currently in compliance with this finding and continues to strive to be the best producer security program in the country. The Grain Dealers Program has improved audit tracking processes and will continue to improve and adapt as the grain industry and business practices continue to change.*

*MDARD is currently evaluating the 12 to 18 month required period for grain audits and is working to determine with the FPIA Board the appropriate schedule for audits.*

### FINDING 3

#### Improved oversight of monthly DPRs needed.

MDARD did not ensure the timely submission of monthly DPRs from licensed grain dealers. DPRs help MDARD analyze the grain dealers' financial stability by identifying loans outstanding against the grain inventory.

Sections 285.74(14)(7) and 285.75 of the *Michigan Compiled Laws* (Public Act 141 of 1939, as amended) state that grain dealers may not hold an outstanding loan balance secured by farm produce inventory in an amount greater than the net positive accumulated dollar value of the farm produce. MDARD uses the DPRs as a tool for ensuring no excessive outstanding loan balances exist. Grain dealers must submit the DPR for the last business day of each fiscal month to MDARD within the first 10 business days of the next month.

We sampled DPRs from June 2019, December 2019, and March 2021 for 28 licensed grain dealers to determine whether the grain dealers submitted complete and timely reports. We noted:

- a. 11 (39%) of the 28 grain dealers did not submit their DPR timely, ranging from 2 to 15 days late, as follows:

<u>Range of Days Late</u>	<u>Number (Percentage) of Late DPRs</u>
1 to 5	7 (64%)
6 to 10	3 (27%)
11 to 15	1 (9%)
Total	<u>11 (100%)</u>

One of the 11 grain dealers submitted its DPRs late for 3 successive months as follows:

<u>DPR Month Due</u>	<u>Days Late</u>
February 2021	46
March 2021	15
April 2021	90

- b. MDARD did not follow up to obtain 2 (7%) of the 28 DPRs from the grain dealers that did not submit their DPRs. One of the 2 grain dealers also did not submit a DPR for the preceding month.

MDARD should remind grain dealers of the requirement for timely submission of DPRs and consider assessing fines for late submissions.

MDARD informed us that responsibility to other programs did not allow sufficient time to ensure the timeliness of DPRs.

### RECOMMENDATION

We recommend that MDARD ensure the timely submission of the monthly DPRs from licensed grain dealers.



**AGENCY  
PRELIMINARY  
RESPONSE**

MDARD provided us with the following response:

*MDARD agrees DPRs should be submitted on time each month. During the COVID-19 pandemic, MDARD placed a stronger emphasis on working with licensees to navigate COVID-19 barriers at their facilities regarding staffing and office hours.*

*The COVID-19 state of emergency led to the staff person responsible for monitoring DPRs to be assigned to a COVID-19 Incident Management Team and additionally was placed on a Statewide required furlough, which delayed the ability to follow-up with facilities regarding their DPRs.*

*The Grain Dealers Program is currently in compliance as of September of 2021. An updated process was developed and fully implemented in September 2021. The updated process added an additional step to the process where a reminder email is sent at the beginning of the month that includes the due date and a blank form. Any licensees not submitting their DPR by the due date will receive another reminder within 5 business days of the due date.*

# EFFECTIVENESS OF GRAIN DEALER LICENSING

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## BACKGROUND

Grain dealers annually file an initial or renewal application with MDARD including:

- Proof of insurance
- Warehouse receipt forms
- Price later agreement forms
- Acknowledgment forms\*

The completed application shall include:

- Facility lease agreements
- Bin charts
- Financial statements
- License fee
- Written appointment of statutory agent (for grain dealers located outside of Michigan)
- Certified public accountant (CPA) reviewed or audited financial statement with an acknowledgment that MDARD relies on the financial statement for determining whether the grain dealer meets the allowable net asset requirements

MDARD must notify grain dealers of incomplete applications within 30 days of receipt, describing the deficiency and requesting additional information. MDARD must issue or deny an initial or renewal application within 30 days of receiving a complete application. If MDARD does not issue or deny the license in a timely manner, it shall return the license fee and reduce the license fee for the next renewal application by 15%.

To assist in issuing licenses in a timely manner, MDARD implemented an online licensing system which allows a grain dealer to submit its application, upload required documents, pay the licensing fee, and track the status of its license.

## AUDIT OBJECTIVE

To assess the effectiveness of MDARD's efforts to license grain dealers.

## CONCLUSION

Moderately effective.

\* See glossary at end of report for definition.

**FACTORS  
IMPACTING  
CONCLUSION**

- Between October 1, 2018 and May 31, 2021, MDARD issued 560 initial and renewal licenses in a timely manner.
- For grain dealers that did not submit complete or timely license renewal applications, MDARD notified the grain dealers via letters and telephone calls.
- MDARD ensured grain dealer bonds were issued with MDARD named as the payee.
- MDARD properly established user access for all 6 licensing portal users.
- Reportable condition related to completeness of license applications prior to issuing a license (Finding 4).

## FINDING 4

### Completeness of grain dealer license applications needed.

MDARD did not always ensure the completeness of license applications prior to issuing grain dealer licenses. Complete applications help MDARD ensure it is properly regulating the buying and selling of farm produce and grain dealers are sufficiently insured.

Sections 285.64(3) and 285.67 of the *Michigan Compiled Laws* (Public Act 141 of 1939, as amended) require grain dealers to submit an annual application to MDARD containing specific documentation to maintain their license.

We sampled 21 of 557 grain dealer applications to determine if MDARD issued licenses in accordance with the Grain Dealers Act. We also tested 6 applications from entities outside of Michigan for an appointment of statutory agent. MDARD issued grain dealer licenses without receiving complete applications, as follows:

- a. 14 (67%) of 21 applications lacked the grain dealers' proof of insurance.
- b. 20 (95%) of 21 applications lacked CPA acknowledgment that the grain dealer met the net allowable assets requirement.
- c. 18 (100%) of 18 applications lacked the proper business forms. The other 3 grain dealers used cash-only transactions and, therefore, did not require certain forms.
- d. 4 (67%) of 6 applications for out-of-state grain dealers did not include a written appointment of a statutory agent in the State of Michigan.

MDARD informed us it did not require grain dealers to submit an annual proof of insurance, proper business forms, and a written appointment of a statutory agent with their annual renewal applications. MDARD believed it is reasonable to obtain these items once with the initial license application and relied on the grain dealer to submit updates when they occur. MDARD also informed us it verifies current information during its audits. In addition, MDARD informed us it used administrative discretion to not enforce the requirement for CPA acknowledgment that the grain dealer met the net allowable assets requirement. State statute requires grain dealers to submit documentation annually to ensure appropriate buying and selling of farm produce, sufficient insurance coverage, and assignment of a statutory agent, if required.

MDARD also informed us it implemented a new licensing portal in April 2021 to assist in processing grain dealer licenses and maintaining documentation.

## RECOMMENDATION

We recommend that MDARD ensure completeness of license applications prior to issuing grain dealer licenses.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDARD provided us with the following response:

*MDARD agrees that the completeness of licensee applications should be ensured prior to issuing a grain dealer license.*

*In the previous licensing system, MDARD required all business forms, proof of insurance, statutory agent, and lease/bin charts with original application to be resubmitted only if documents or agreements changed. Business forms, stock insurance, bin charts and lease agreements were also verified during in-person audits.*

*As of April 7, 2021, the new License Portal System (LPS) requires grain dealers to include or update business forms, statutory agent, lease agreements and proof of insurance for initial license and renewals. All records are kept in LPS archives and must be approved by the licensee prior to renewing their license.*

*CPA acknowledgement statements within their audit reports is at the discretion of the client and the CPA. MDARD continues to advocate with the Michigan Association of Certified Public Accountants for inclusion of the statement.*

*The Grain Dealers Program is currently in compliance with this finding under LPS and will continue to improve and adapt as the grain industry and business practices continue to change.*

# VALIDATION OF PRODUCER LOSS CLAIMS

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## BACKGROUND

The Farm Produce Insurance Act (Public Act 198 of 2003) established a fund to provide insurance to farm producers against losses from the failure of grain dealers. The FPIA Board of Directors consists of MDARD representatives, Governor-appointed farm producers, and agricultural lenders.

When a grain dealer fails to be financially stable and unable to pay its obligations, MDARD audits the grain dealer and identifies producers that have not been paid for grain transactions. MDARD posts notices at the failed grain dealer location informing producers to submit claims of nonpayment. A producer is eligible to submit a claim of nonpayment if it possesses written evidence of a transaction for produce storage or sale.

MDARD provides administrative services to FPIA by determining whether producer claims are valid and accurate and logging each payment made to the producer from grain assets or property sold. MDARD determines the amount of loss based on local market prices on the day of the failure. After reconciling all claims, MDARD presents the claims to FPIA for review. FPIA pays a percentage of the producers' claims based on whether the producer gave up title of the grain to the grain dealer at the time of the transaction. A producer who maintains title of the grain is eligible for 100% reimbursement of its loss, while a producer who gave title to the grain dealer is eligible for 90% reimbursement. FPIA is required to pay the producers' claims within 90 days of Board approval.

## AUDIT OBJECTIVE

To assess the effectiveness of MDARD's efforts to validate producer loss claims.

## CONCLUSION

Effective.

## FACTORS IMPACTING CONCLUSION

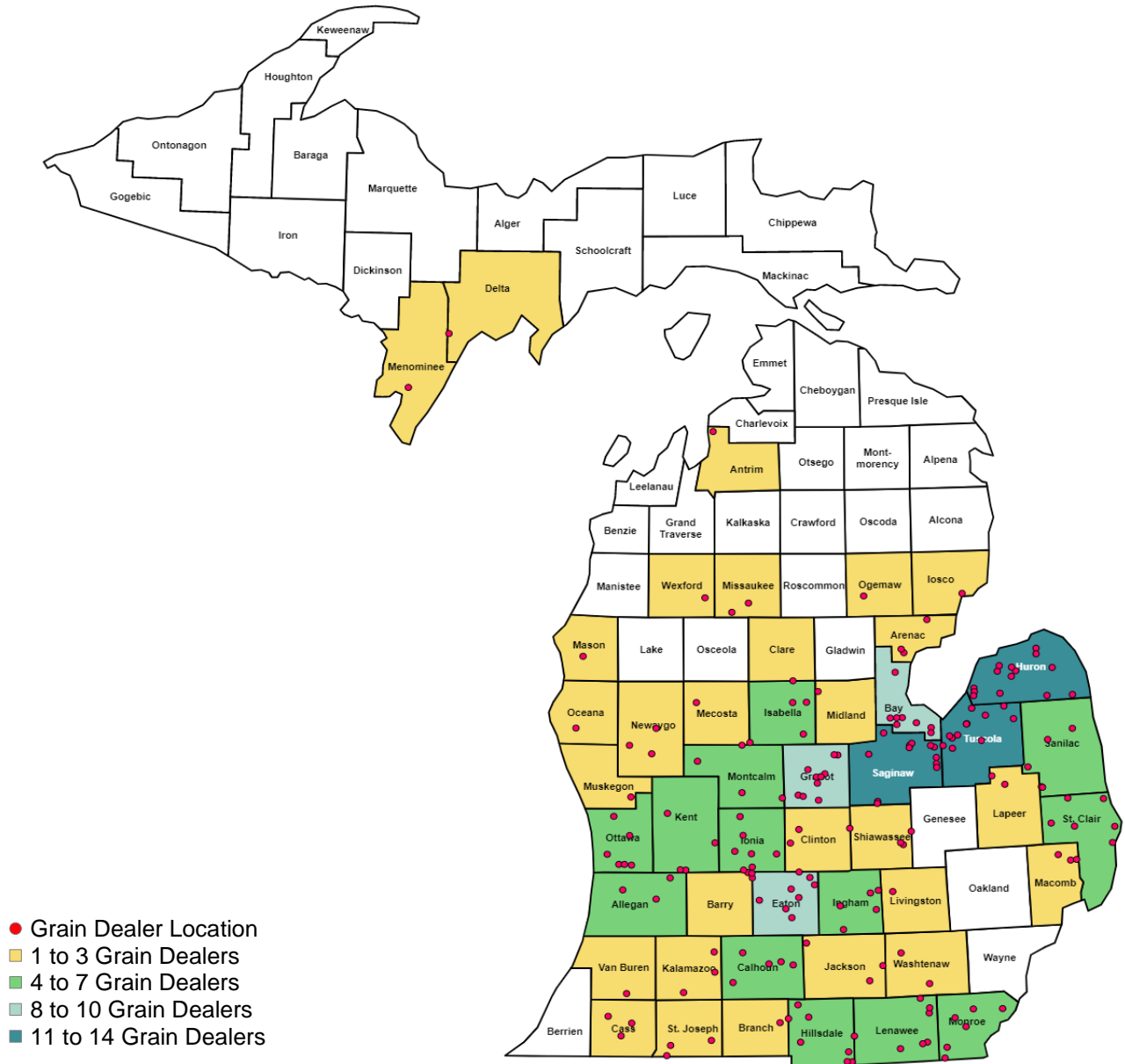
- Of the 2 grain dealer failures in 2019, MDARD audited and processed 51 producer claims.
- MDARD sufficiently logged and tracked all producer claims until final payments had been made to the producers.
- In fiscal years 2019 and 2020, MDARD presented 23 and 28 validated and audited producer claims, respectively, to FPIA for approval.
- Of the 6 producer claims we reviewed, MDARD ensured 100% of the producers were issued final payments from FPIA within 90 days of Board approval.

# SUPPLEMENTAL INFORMATION

UNAUDITED  
Exhibit 1

## GRAIN DEALERS PROGRAM Michigan Department of Agriculture and Rural Development

Map of Grain Dealers Licensed in Michigan by County  
As of April 2, 2021



To view the interactive map, click here: <https://audgen.michigan.gov/791024021map.html>

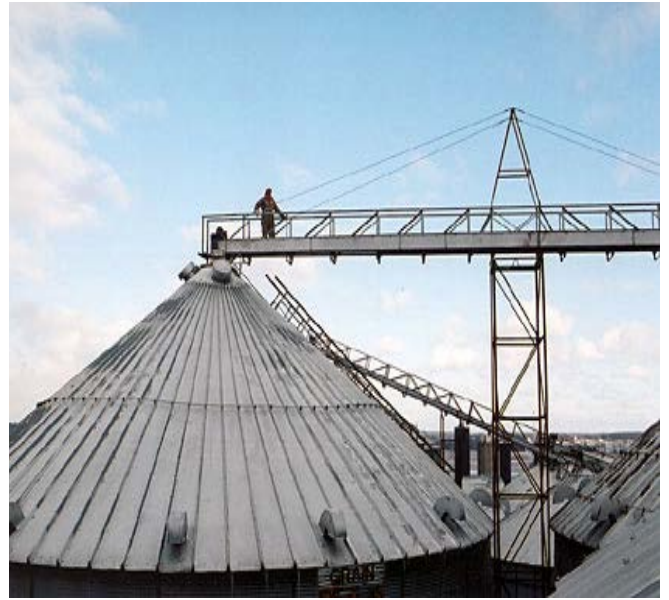
Source: The OAG prepared this exhibit with the information from the April 2021 Licensed Grain Dealers by County listing.

GRAIN DEALERS PROGRAM  
Michigan Department of Agriculture and Rural Development

Grain Dealer Photographs



Grain dealers use overhead loadout bins to load trucks for grain transport.



A catwalk spans grain bins for ease of access.



A measuring tape is used to measure airspace in a grain bin. This airspace measurement is used to determine the amount of grain in the bin.



Grain dryers are used to reduce moisture content in grain and prevent spoilage during storage.

Source: Photographs provided by MDARD.



## PROGRAM DESCRIPTION

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According to the 2020 State Agriculture Overview published by the United States Department of Agriculture, Michigan has over 46,000 farms using approximately 9.8 million acres of land. Leading grain crops include corn, soybeans, and wheat. MDARD's Grain Dealers Program regulates the Michigan grain industry by licensing anyone who receives, buys, sells, or stores grain produce in accordance with the Grain Dealers Act (Public Act 141 of 1939, as amended). As of April 2021, MDARD licensed 188 grain dealers in Michigan, including 15 owned by out-of-state entities (see Exhibits 1 and 2).

To be eligible to receive a license, a grain dealer is required to have (1) at least \$100,000 in allowable net assets and have handled 1,000,000 or fewer bushels of farm produce in its most recent fiscal year or (2) at least \$100,000 in allowable net assets and the allowable net assets shall equal or exceed the product of \$0.10 multiplied by the number of bushels of farm produce handled by the grain dealer in the most recent fiscal year. If the grain dealer cannot meet the allowable net asset requirements, it must provide MDARD with a negotiable bond equal to the amount the grain dealer's allowable net assets failed to meet the allowable net asset requirement. The grain dealer's bond shall name MDARD as the payee, be executed by the applicant as principal, and be issued by surety authorized to conduct business in the State.

The Grain Dealers Act was created when a large number of grain elevator bankruptcies resulted in tremendous losses to producers, who were unable to reclaim grain they had deposited with grain dealers. The Farm Produce Insurance Act (Public Act 198 of 2003) was enacted to provide insurance to farm producers against losses from the failure of grain dealers by establishing an FPIA and an indemnity fund.

When a grain dealer demonstrates its insolvency and inability to pay its obligations, MDARD audits producer claims and presents a report to FPIA's Board. FPIA reimburses a percentage of the claim to the producer from the fund. Between fiscal years 2004 and 2020, there were 11 grain dealer failures with \$5.6 million paid to cover producer claims.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the records and processes of the Grain Dealers Program. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2018 through May 31, 2021.

### METHODOLOGY

We conducted a preliminary survey of the Grain Dealers Program. During our preliminary survey, we:

- Interviewed Grain Dealers Program management and staff to obtain an understanding of their processes related to grain dealer licensing, site audits, and producer loss claims.
- Reviewed applicable laws, rules, regulations, policies, and procedures.
- Analyzed grain dealer records, data, and statistics.
- Analyzed Grain Dealers Program expenditures and revenues from October 1, 2018 through May 31, 2021.
- Performed a site visit to a grain elevator and observed the traditional site audit process.

### OBJECTIVE 1

To assess the effectiveness of MDARD's efforts to administer the Grain Dealers Program.

\* See glossary at end of report for definition.

To accomplish this objective, we:

- Interviewed Grain Dealers Program staff to gain an understanding of the processes for monitoring grain dealers.
- Evaluated 146 of 281 grain dealer audits completed between October 1, 2018 and May 31, 2021 to determine whether MDARD completed the audits in a timely manner.
- Randomly sampled 30 of 281 completed audit reports between October 1, 2018 and May 31, 2021 for sufficiency and completeness.
- Randomly subsampled 3 months of DPRs for 30 of 281 grain dealer audits between October 1, 2018 and May 31, 2021 for timeliness and completeness.
- Reviewed Grain Dealers Program logs for recording complaints of nonpayment and other inquiries.
- Reviewed job descriptions, user access rights, and roles for the 5 ExamHand eZam users with access between October 1, 2018 and May 31, 2021.
- Obtained and analyzed all 7 of the Grain Dealers Program's quarterly risk assessments ranging from January 2019 through May 2021.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective population.

## **OBJECTIVE 2**

To assess the effectiveness of MDARD's efforts to license grain dealers.

To accomplish this objective, we:

- Interviewed Grain Dealers Program staff to obtain an understanding of the licensing process and the licensing portal.
- Randomly sampled 19 of 543 grain dealers and 2 of 17 grain merchandisers licensed between October 1, 2018 and May 31, 2021 to determine whether MDARD issued licenses in accordance with the Grain Dealers Act.
- Randomly sampled and reviewed 21 of 560 grain dealers' applications between October 1, 2018 and May 31, 2021 to determine if applications were complete, appropriate, submitted in a timely manner, and issued in accordance with the Grain Dealers Act.

- Reviewed all users with access to the licensing portal during the audit period to determine whether user access rights and roles were appropriate and properly established.

Our random sample was selected to eliminate any bias and enable us to project the results to the population.

### **OBJECTIVE 3**

To assess the effectiveness of MDARD's efforts to validate producer loss claims.

To accomplish this objective, we:

- Interviewed Grain Dealers Program staff to gain an understanding of the grain dealer failure process.
- Obtained and reviewed two Grain Dealer Failure Fact and Final Order for 2019 failures.
- Randomly sampled 6 of 51 producer claims from the two 2019 failures to recalculate the claim amount and determine whether the claim was approved by FPIA and paid in a timely manner. Our random sample was selected to eliminate any bias and enable us to project the results to the population.

### **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions\* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

### **AGENCY RESPONSES**

Our audit report contains 4 findings and 4 corresponding recommendations. MDARD's preliminary response indicates it agrees with all of the recommendations.

The agency preliminary response following each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

\* See glossary at end of report for definition.

**SUPPLEMENTAL  
INFORMATION**

Our audit report includes supplemental information presented as Exhibits 1 and 2. Our audit was not directed toward expressing a conclusion on this information.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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acknowledgment form	A scale weight ticket, load slip, or any other evidence of deposit issued by a grain dealer to a depositor that identifies the farm produce being transferred from the possession of the depositor to the possession of the grain dealer.
auditor's comments to agency preliminary response	Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
commodity audit	A type of audit MDARD performs on grain dealers to ensure the assessment fee of \$0.1 per bushel of grain is properly assessed and submitted.
COVID-19	The infectious disease caused by the most recently discovered coronavirus. This new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019. COVID-19 is now a pandemic affecting many countries globally.
CPA	certified public accountant.
daily position report (DPR)	A monthly transaction report grain dealers submit to MDARD by the 10th business day of the following month.
desk audit	A form of traditional or working capital audit MDARD initiated during the COVID-19 pandemic. The grain dealer sends the requested data to MDARD electronically or by mail, and the review is completed remotely.
effectiveness	Success in achieving mission and goals.
FPIA	Farm Produce Insurance Authority.
Grain Dealers Program	A State-required MDARD program designed to regulate the storing, buying, and selling of grain produce by licensing and monitoring grain dealers.
internal control examination	A type of audit performed by MDARD on grain dealers where grain inventory is physically measured and compared with producer obligations.

LPS	License Portal System.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
MDARD	Michigan Department of Agriculture and Rural Development.
open storage	Storage of farm produce for 30 days or less under an acknowledgment form that does not contain a designation of a specific transaction type.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
price later agreement	A written or electronic agreement between a depositor and a grain dealer where the grain dealer receives title to the farm produce and the depositor retains the option to price the farm produce after delivery based on the agreement conditions.
producer	A person who delivers farm produce to a licensed grain dealer for storage, processing, shipment, or sale and has title to the farm produce at the time of delivery, also known as a depositor.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
traditional audit	A type of audit performed by MDARD on grain dealers to review whether grain inventory on the DPR meets or exceeds producer obligations.

warehouse receipt                      A written or electronic receipt issued by a grain dealer to a depositor at the time the grain dealer accepts farm produce for storage.

working capital audit                      A type of audit performed by MDARD on grain dealers with higher risk of failure to review the grain dealer's working capital status to ensure producer obligations can be met.











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