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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF AGRICULTURE
AND RURAL DEVELOPMENT

GARY MCDOWELL
DIRECTOR

July 6, 2022

Mr. Richard Lowe, Chief Internal Auditor
State Budget Office
Office of Internal Audit Services
111 S Capitol Ave
8th Floor, Romney Building
Lansing MI 48933

Dear Mr. Lowe,

In accordance with the State of Michigan, Financial Management Guide, Part VII, enclosed is our final corrective action plan to address recommendations contained within the Office of the Auditor General report of the Michigan Department of Agriculture and Rural Development for Grain Dealers (791-0240-21).

Questions regarding the corrective action plan should be directed to Sylvia Renteria, Director of Finance and Budget at 517-599-3605 or by email at renterias@michigan.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sylvia Renteria'.

Sylvia Renteria

Enclosure (1)

c: Executive Office: JoAnn Huls, Maria Martinez, Trish Foster
Office of the Auditor General: Doug Ringler
House Fiscal Agency: Mary Ann Cleary
Senate Fiscal Agency: Kathryn Summers
House and Senate Appropriation Sub-Committees: Sue Allor, Roger Victory
House and Senate Standing Committees: Julie Alexander, Kevin Daley
Director Gary McDowell, Chief Deputy Director Ken McFarlane
Division Director Jamie Zmitko-Somers

**Michigan Department of Agriculture and Rural Development
Performance audit report on the Grain Dealers Program**

Project Number: 791-0240-21

Issued By OAG

December 22, 2021

Department Final Corrective Action Plan

Summary Response Matrix

	Complied	Will Comply	Partially Complied	Will Not Comply
Agrees	2, 3, 4	1		
Partially Agrees				
Disagrees				

Final Corrective Action Plan (CAP)

Finding Number 1

Finding Title: Additional guidance for conducting grain dealer risk assessments needed.

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.

Related IT system, if applicable: N/A

Department Response

Management Views: MDARD agrees to further document its guidance for conducting quarterly and ongoing risk assessments.

Planned Corrective Action and Milestones (Management Response):

Grain Dealers Program (GDP) 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 GDP program raised by producers.

MDARD will improve the risk assessment process by creating additional guidance for conducting grain dealer risk assessments. MDARD will undergo a Lean Process Improvement (LPI) for the GDP to analyze current processes and identify opportunities for improvement. Following the LPI, MDARD will:

1. Define and provide written guidance on key terms for evaluating risk.
2. Develop written procedures and metrics for the establishment for priority rankings.
3. Provide written guidance for auditors when deviation from completion of working capital audits or other audit procedures are required.
4. Improve technology in the ability to access licensees audit history and needs.

Improving the risk assessment process will provide security to grain producers and enhance our GDP to ensure it is well respected and trusted by stakeholders and licensees.

Anticipated Compliance Date: December 31, 2022

Responsible Individual: Producer Security Manager: Jeff Haarer

Finding Number 2

Finding Title: Site audits should be conducted within the required time frame.

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

Related IT system, if applicable: N/A

Department Response

Management Views: MDARD agrees that during the audit period audits should have been completed in 12 to 18 months.

Planned Corrective Action and Milestones:

Due 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. The GDP placed a stronger emphasis on high risk-based audits, inventory control exams, where they doubled the number completed from the previous year and conducted desk audits when feasible. In addition, 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, GDP 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 auditor decisions to delay the audits.

MDARD has complied with this finding as of August 30, 2021. GDP returned to 97% compliance by April 30, 2021, and 100% compliance by August 30, 2021, for all audits being completed within 18 months. GDP has improved audit tracking processes and will continue to improve and adapt as the grain industry and business practices continue to change.

Compliance Date: August 31, 2021

Responsible Individual: Producer Security Manager: *Jeff Haarer*

Finding Number 3

Finding Title: Improved oversight of monthly DPRs needed.

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

Related IT system, if applicable: N/A

Department Response

Management Views: MDARD agrees that Daily Position Reports (DPRs) should be submitted on time each month.

Planned Corrective Action and Milestones:

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. During the COVID-19 pandemic, GDP placed a stronger emphasis on working with licensees to navigate COVID-19 barriers at their facilities regarding staffing and office hours.

MDARD has complied with this finding as of September of 2021. A new process was developed and fully implemented in September 2021 which improved the oversight of monthly DPRs. The updated process added an additional step to the process where a reminder email is sent out at the beginning of the month that includes the due date and a blank form. Any licensees not submitting the DPR by the due date will receive another reminder within 5 business days of the due date.

Compliance Date: September 2021

Responsible Individual: Producer Security Manager: *Jeff Haarer*

Finding Number 4

Finding Title: Completeness of grain dealer license applications needed.

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

Related IT system, if applicable: Licensing Portal System (LPS)

Department Response

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

Planned Corrective Action and Milestones:

Previously in the old licensing system, GDP 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.

MDARD has complied with this finding as of April 7, 2021. Implementation of the new License Portal System (LPS) ensures that licensee applications are complete prior to issuing a grain dealer license. 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 licensee prior to renewing their license.

MDARD continues to advocate for inclusion of the CPA acknowledgement within grain dealer applications. Certified Public Accountant (CPA) acknowledgement statements within their audit reports is at the discretion of the client and the CPA.

Compliance Date: April 7, 2021

Responsible Individual: Producer Security Manager: *Jeff Haarer*