LEGISLATIVE AUDIT COMMISSION

Review of
Illinois Grain Insurance Corporation
Year Ended June 30, 2003

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REVIEW: 4215
ILLINOIS GRAIN INSURANCE CORPORATION
YEAR ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 7

ACCEPTED - 7

REPEATED RECOMMENDATIONS - 0

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 0

This review summarizes an audit of the Illinois Grain Insurance Corporation for the two years ended June 30, 2003, filed with the Legislative Audit Commission March 30, 2004. The auditors performed a compliance audit in accordance with Government Auditing Standards and State law. In addition, the auditors performed a financial audit and stated the financial statements were fairly presented.

The Illinois Grain Insurance Corporation was created in 1983 for the purpose of improving the economic stability of agriculture by establishing a fund to pay grain producers and other claimants for losses incurred by the failure of a grain dealer or warehouseman. The primary functions of the Corporation are to make investments with funds assessed and collected by the Department of Agriculture and to transfer funds to the Grain Indemnity Trust Fund when the Director of the Department of Agriculture determines it necessary in order to compensate claimants. The assessments are collected from grain dealers and warehousemen.

The Illinois Grain Insurance Corporation is located in the Department of Agriculture and is operated under the direction of a Board of Directors. The Board of Directors consists of the Director of the Department of Agriculture, a designee of the Attorney General, a designee of the State Treasurer, a designee of the Director of the Department of Insurance, and the Chief Fiscal Officer of the Department of Agriculture. Mr. Chuck Hartke, Director of the Department of Agriculture, is the President of the Illinois Grain Insurance Corporation. Fiscal support to carry out the responsibilities of the Corporation and personnel necessary to operate the Corporation is provided by the Department of Agriculture.

Appendix A shows the number of active grain dealers, which has decreased from 458 at the beginning of FY02 to 414 at the end of FY03.

Financial Information

Appendix B presents comparative balance sheets for the Grain Insurance Corporation at June 30, 2003 and 2002. Total liabilities and fund balance at June 30, 2003 was $1,438,000, compared to $27,000 at June 30, 2002. In FY02, the Corporation received an advance from the General Revenue Fund of $4 million required to be reimbursed to the State over a period of more than 10 years through a series of assessments made on licensed grain dealers and warehousemen.

Appendix C provides a summary of revenues and expenditures for FY03-FY01. The primary source of revenues in most years is assessment fees, which represent payments by grain dealers and warehousemen for their assessments as calculated and billed by the Department of Agriculture. Assessment fees increased from $118,636 in FY02 to $904,727 in FY03, as a result of a supplemental assessment levied in FY03. Due to the Ty-Walk failure, the Corporation's fund equity fell below $3 million before September 1, 2002 resulting in this assessment on 409 grain dealers. Assessments range from a minimum of $500 to a maximum of $5,000.

During FY02, the Corporation paid to the Grain Indemnity Trust Fund a total of $9,097,163 to cover claims resulting from the failure of Ty-Walk. As of June 30, 2003, substantially all claimants had been paid, and $1,020,000 had been returned to the Corporation.

The Corporation did not have expenditures which would represent administrative costs. Department of Agriculture personnel indicated there are approximately six employees who work on the Corporation's fiscal and administrative functions.

Accountants' Findings and Recommendations

Condensed below are the seven findings and recommendations presented in the audit report. There were no repeated recommendations. The following recommendations are classified on the basis of information provided by the Department in the audit report.

Accepted

1. Periodically review the status of balances maintained in the Grain Indemnity Trust Fund and report amounts receivable when appropriate.

Findings: The Grain Insurance Corporation did not record amounts due from the Illinois Grain Indemnity Trust Fund for reimbursement of claims paid. The Department of Agriculture management determined there was approximately $282,000 due to the Grain Insurance Fund for reimbursements payable from the Grain Indemnity Trust Fund. The Illinois Grain Code requires certain proceeds to be first used to repay the Grain Insurance Fund for moneys transferred to the Trust Account.

Response: Accepted. The agency has recognized $282,000 as a receivable from the Indemnity Trust Account on the financial statements of the Illinois Grain Insurance Fund.

The agency will periodically review the balances in the Indemnity Trust Account and employee accounting principles to ensure that amounts deemed receivable are timely recognized as assets of the Illinois Grain Insurance Fund. Furthermore, the agency expresses concern that they lack professional accounting employees that could possibly catch this type of adjustment.

2. Appoint a senior level accounting or administrative staff person the task of review and subsequently correcting or approving all proposed adjusting journal entries before posting the entries to the general ledger.

Findings: Adjusting journal entries are used to correct errors that have been previously posted to the assessments receivable journal, to change items previously posted that changed due to billing disputes, or to correct cash balances because of insufficient fund checks, service charges, etc. The same individual who maintains the general ledger records all adjusting journal entries. Although the auditors did not note numerous, unusual or questionable journal entries, an independent review of the adjusting journal entries was not performed.

Response: Accepted. The agency was unaware that adjustments for record keeping inaccuracies needed independent review by another party. The agency will implement a policy that requires all adjusting entries be reviewed and authorized by senior accounting or administrative staff prior to execution.

3. Assign a senior level employee who is familiar with both the status of field inspections and the statutory rates for supplemental assessments to review and approve all supplemental billing letters before they are mailed.

Findings: The Corporation imposes a supplemental assessment to all licensed grain dealers whenever the Grain Insurance Fund's balance falls below $3 million at September 1st of each year. Supplemental assessments are based on licensee bushel capacities as of September 1st. A Department employee utilizes licensee capacity information from a database, applies the applicable rates, and generates a billing letter to all licensees on record.

The individual who prepares the billing letter mails the supplemental assessment to the licensee with no independent review and approval of the assessment. Four of 129 supplemental assessment billings tested were billed incorrectly resulting in a net overbilling of $1,784.

Accepted – continued

Response: Accepted. The agency is short of personnel due to Early Retirement Incentive and the Bureau Chief leaving in February 2003; however, we will resolve this issue by having the Agriculture Industry Regulation division manager perform the senior level review of the assessment in the interim.

Lastly, the new Grain Insurance Code allows for refunds up to $2,000 for over payments, which provides recourse for individual grain elevators.

4. Create a policies and procedures manual, documenting these items:

- **A clearly defined hierarchy of personnel that includes specific positions and specific duties within those positions.**
- **A clearly defined set of procedures, including the specific procedures in such areas as billing, cash receipts and accounts receivable; disbursements and accounts payable; and general ledger maintenance.**

Findings: The Corporation has never had a written policies and procedures manual from its inception. The Grain Code does not address procedural and administrative matters and accounting controls required in the effective operation of the Corporation.

Response: Accepted. The agency previously recognized written policies and procedures manual should be developed. Said manuals should set forth a clearly defined hierarchy of personnel that include specific positions and specific duties within those positions. Further, a clearly defined set of procedures, including the specific procedures in such areas as billing, cash receipts and accounts receivable; disbursement and accounts payable; and general ledger maintenance.

The agency, recognizing the need for said manuals, did not allocate limited resources toward the development of these policy and procedures manuals during FY02 due to the tremendous resource expenditures associated with the failure of Ty-Walk Liquid Sales. In FY03, limited resources were not allocated toward this project due to staff reductions resulting from the early retirement incentive.

This matter will be brought to the attention of the Corporation's board. Specific procedural requirements related to billing, accounts receivable and general accounting of the Illinois Grain Insurance Fund and its operations will be addressed at the next meeting of the Board of Directors of the Illinois Grain Insurance Fund and policy and procedure manuals will be developed.

5. Assign a senior level fiscal employee to independently review and reconcile all reports submitted to the Comptroller to the quarterly financial reports prepared by the Department's accounting personnel.

Findings: The Locally Held Funds Form (Form C-17) for the quarter ended June 30, 2002, overstated the amount reported for Licenses, Fees or Registration receipts by $76,720. Department management stated that inaccurate receipt information in the Form C-17 resulted from a clerical error in compiling the report.

Response: Accepted. The agency reviewed the quarterly report and filed an amended report to correct the overstatement. The agency will develop procedures to allow senior management to compare and reconcile the C-17 to the quarterly Grain Insurance Financial statements for accuracy.

6. Stamp the date received on all receipt remittances accompanying cash receipts. Develop a procedure to document the date cash is received for instances when a remittance invoice does not accompany cash receipts.

Findings: The auditors noted 24 of 180 receipts tested did not have a "date received" stamp.

Response: Accepted. The reason some invoice copies are not date stamped is that quite often companies will send payments without the appropriate invoice. In these particular cases the invoice number is typically identified on the check stub, but occasionally there will be no means of identification, and a telephone call to the company will be required to ascertain which account to apply the payment. Once the invoice number has been identified and either circled or written on the check stub, the check and stub will be sent to the accounting office. Once there, accounting will either pull a copy or make a copy of the invoice they originally received from the Bureau of Warehouses, and then return it to the Bureau with payment information written on the form. This copy, originating within the Department, cannot properly be date stamped as received since it actually was not received from the client. There are some companies that never render an invoice copy upon payment. The Bureau has requested that a copy of the invoice is returned to the Department, and this language is even printed on the copy (two copies are always sent of each invoice) of the invoice we send the client; nevertheless, it is often the case that the invoice is not returned.

The agency will develop and implement a procedure that ensures that all copies of warehouse invoice receipts are date stamped appropriately.

7. Timely file the internal control certification in accordance with the requirements set forth in the Fiscal Control and Internal Auditing Act.

Findings: Although a review of internal and administrative controls was performed on a timely basis, the required certification of the Corporation's evaluation of internal and administrative controls was filed with the Office of the Auditor General 106 days late.

Accepted - concluded

Response: Accepted. Department interviews were conducted with personnel that dealt with the Illinois Grain Insurance Corporation prior to the May 1 deadline. Once complete a timely certification letter was filed with the OAG, which was intended to cover the

Department of Agriculture and the Corporation. The Department now understands that a separate certification letter is required under the Act.