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REPORT BY THE U.S.

General Accounting Office

More Can Be Done To Protect Depositors At Federally Examined Grain Warehouses

About 2 percent of the Nation's 10,000 grain warehouses went bankrupt from 1974 to early 1981. On the basis of self-developed criteria applied to financial data on a random sample of warehouses examined by the Federal Government, GAO believes that a number of grain warehouses are in an unsound financial position.

Predictive formulas that have been tested successfully in other industries, if adapted to grain warehouses, could be a great help in identifying possible bankruptcies. Such a formula would also provide valuable data on the magnitude of the potential bankruptcy problem--information GAO believes is needed before current Federal programs are expanded significantly. To use such a formula, however, the Department of Agriculture will have to require minor changes in the financial data warehouses now report.

GAO is recommending several changes to the Department's warehouse examination and financial data review procedures which should strengthen protection provided to grain depositors.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-202986

The Honorable John R. Block
The Secretary of Agriculture

Dear Mr. Secretary:

This report summarizes the results of our review of the Department's grain warehouse examination programs. To avoid duplication of other ongoing studies, we limited our examination to the magnitude of the bankruptcy problem to date and the number of warehouses in financial difficulty, ways the current Federal programs could be strengthened, and issues that should be considered in evaluating certain possible program and legislative changes. We coordinated our work closely with the working group of the task force you established in February 1981 and obtained the views of certain group members on the matters discussed in this report.

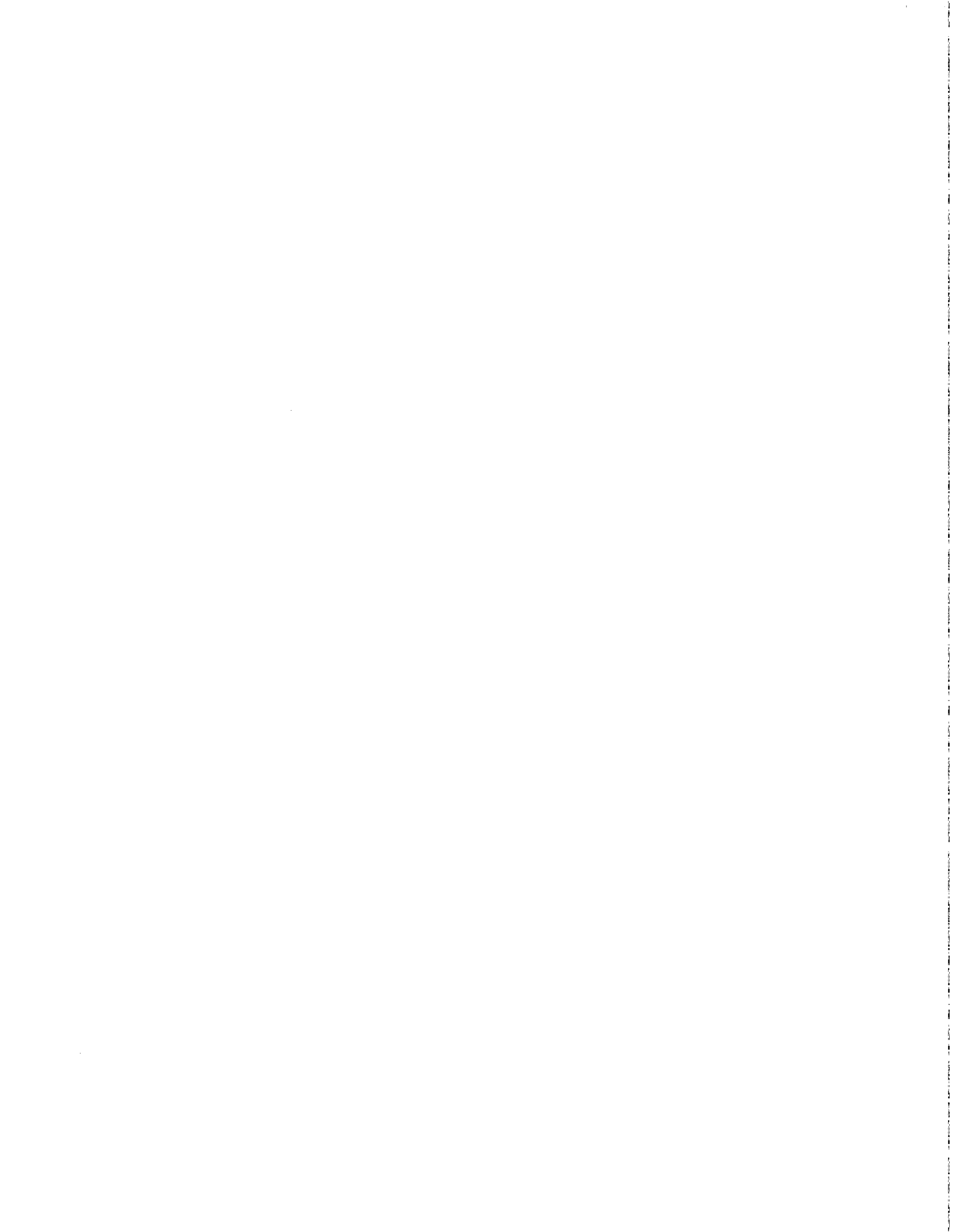
The report contains recommendations to you on pages 15, 27, and 28. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to interested congressional committees and members; the Congressional Budget Office; the Congressional Research Service; and the Director, Office of Management and Budget. We are also sending copies to your Office of Inspector General; Office of Operations and Finance; Agricultural Marketing Service; and Agricultural Stabilization and Conservation Service.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege".

Henry Eschwege
Director



D I G E S T

Grain warehouse bankruptcies over the past few years and the publicity given a few recent cases have heightened concern about Federal and State warehouse licensing and examination programs. The Department of Agriculture and most major grain-producing States administer programs to ensure that producers and the Federal Government have safe storage facilities for their agricultural commodities. The Department administers a voluntary licensing and examination program under the U.S. Warehouse Act. It also sets requirements for and examines contract warehouses storing commodities owned by the Commodity Credit Corporation (CCC) or pledged to CCC as loan collateral.

PAST BANKRUPTCIES AND FUTURE ESTIMATES

The best overall data available on past bankruptcies indicates that about 2 percent of the approximately 10,000 grain warehouses nationwide have gone bankrupt since 1974. Financial formulas for predicting bankruptcies in certain industries have been developed and tested successfully. The Federal Deposit Insurance Corporation also uses financial ratio tests to identify banks which may be deteriorating before the situation's become serious. A predictive formula for grain warehouses has not been developed, but research is underway. (See pp. 7 to 10.)

To estimate how many warehouses might be in financial trouble, GAO applied certain financial ratios and self-developed criteria to data reported to the Department by a random sample of 400 grain warehouses under Federal jurisdiction. GAO found that 19, or 4.75 percent, of the sample warehouses met its criteria for being in financial trouble. Based on these results, GAO estimates that about 300 warehouses may be financially unsound. At the 95-percent confidence level, this number could range from 173 to 427 warehouses. These results do not mean that 300 bankruptcies are likely to occur in the near future. However, GAO believes these results indicate that more accurate forecasts of future bankruptcies are needed. (See pp. 12 to 15.)

No predictive formula will ever be totally accurate. Even though the grain industry is volatile, a predictive formula could be a great help in identifying possible bankruptcies. The Department is considering what actions it should take when insolvencies are likely to occur. Before deciding this, it should develop a predictive formula to better determine the number of potential bankruptcies. This information, in GAO's opinion, is necessary to determine what, if any, actions would be appropriate. To use such a formula, however, the Department will have to require warehouse operators to provide certain sales data in addition to financial data they now must report. This data could be obtained with only minor changes in current requirements and would enable the Department to compute and determine the trend of commonly used financial ratios that indicate financial health. (See pp. 10 and 11.)

Recommendations

The Secretary of Agriculture should direct the Administrator, Agricultural Marketing Service, to:

- Require federally examined warehouses to submit the financial data necessary to compute commonly used ratios indicative of financial health.
- Develop and implement a predictive formula for grain warehouse bankruptcies. This formula would be useful in determining the magnitude of the potential bankruptcy problem and in establishing priorities and frequencies for Federal examinations. It should be developed before the Department decides what actions to take on threatened insolvencies. (See p. 15.)

FEDERAL WAREHOUSE PROGRAMS NEED STRENGTHENING

Federal warehouse examinations are designed to protect depositors primarily by ensuring that a warehouse has enough grain of the proper quality to meet all storage obligations. Two weaknesses hamper efforts to accurately determine these obligations. They are (1) the practice of not issuing warehouse receipts for all storage grain and (2) the lack of control over printing and distribution of warehouse receipts in certain States.

Federally examined warehouses do not always issue warehouse receipts for grain placed in storage because the Department does not require them to do so. In these cases, current examination procedures are of little value because all storage obligations are not backed by reliable documentation and because examiners do not verify with depositors the storage obligations shown in warehouse records. The Deputy Director, Inventory Management Division, Agricultural Stabilization and Conservation Service, said this verification would increase examination time. GAO believes the time would be worthwhile, considering the added assurance it would provide. (See pp. 19 to 21.)

Many States do not control the printing and distribution of receipts. As a result, examiners cannot be sure they have accounted for all receipts when examining nonfederally licensed CCC contract warehouses in those States. This situation jeopardizes the purpose of the examination and makes it difficult to detect if operators have improperly issued receipts as loan collateral on grain they do not own. (See pp. 21 and 22.)

The Department requires operators to submit certain financial data at least annually but does not require certified statements. It reviews this data to ensure that warehouses continue to meet net asset and bonding requirements of the U.S. Warehouse Act or CCC regulations, as appropriate. The Department would receive more uniform data, save review time, and more realistically determine warehouses' net assets if it revised its requirements and review procedures as GAO recommends. Agency officials responsible for warehouse programs believe warehouse operators need to submit certified financial statements. (See pp. 22 and 23.)

Recommendations

The Secretary of Agriculture should:

- Require that all CCC contract grain warehouses use warehouse receipts that can be accounted for during Federal warehouse examinations.
- Require that federally licensed and CCC contract grain warehouses give depositors warehouse receipts for all storage grain as soon as possible after delivery.

--Require that grain storage obligations shown on warehouse records be verified with a statistical sample of depositors.

GAO also is recommending ways the Department could improve its financial data requirements and review procedures. (See pp. 27 and 28.)

FEDERAL PROGRAMS DO NOT INCLUDE ALL WAREHOUSES

Federal programs cover about 64 percent of the Nation's grain warehouses. The protection afforded depositors in the remaining warehouses depends largely on State laws and examination programs.

Twenty-nine grain-producing States have licensing and examination programs for grain warehouses and/or dealers, but requirements in these States vary quite a bit, even in key protective areas such as net assets and bonding. Although GAO did not evaluate the effectiveness of these State laws and programs, the range in requirements suggests a corresponding range in the degree of protection States provide depositors. (See pp. 3 and 24 to 27, and apps. I to IV.)

ISSUES TO CONSIDER IN REVISING THE FEDERAL PROGRAMS

The Department's 1981 task force on grain elevator bankruptcies identified alternatives for improving the Federal grain warehouse examination programs. The Department plans to study the alternatives in more detail before deciding which, if any, should be implemented. GAO did not evaluate specific alternatives but believes the Department should address certain issues before major program changes are made. The most important issue is whether the potential for further grain elevator bankruptcies warrants significant expansion of Federal efforts. (See pp. 29 to 32.)

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ABBREVIATIONS

AMS	Agricultural Marketing Service
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
GAO	General Accounting Office
USDA	U.S. Department of Agriculture

CHAPTER 1

INTRODUCTION

Grain elevator bankruptcies over the past few years and the publicity given a few recent cases have heightened concern about the effectiveness of warehouse licensing and examination programs. These programs are designed to ensure that producers have safe facilities in which to store their agricultural commodities. The U.S. Department of Agriculture (USDA) administers a voluntary licensing and examination program under the U.S. Warehouse Act, as amended (7 U.S.C. 241 et seq.). It also sets requirements for and examines warehouses storing commodities owned by the Commodity Credit Corporation (CCC) or pledged to CCC as loan collateral. Most major grain-producing States also have laws to regulate grain warehouses.

FEDERAL LICENSING AND EXAMINATIONS UNDER THE U.S. WAREHOUSE ACT

USDA's Agricultural Marketing Service (AMS) administers the Federal licensing and examination program for warehouses storing agricultural commodities authorized by the U.S. Warehouse Act. According to USDA, the program's primary objectives are to

- protect producers and others who store their agricultural products in public warehouses,
- assure the integrity of warehouse receipts as documents of title to be used as collateral for loans and to facilitate trading in interstate commerce, and
- set and maintain a standard for sound warehouse operations.

The act is permissive in that it applies only to warehouse operators who voluntarily apply, are found eligible for licensing, and furnish an annual bond for license continuation. By maintaining a Federal license, warehouse operators demonstrate to their depositors that they meet Federal requirements for proper and sound warehouse operations.

To qualify for a license, an operator must have a suitable and properly equipped warehouse, a good business reputation, and a minimum allowable net worth computed on the basis of warehouse capacity and the type of commodity stored. Net worth of at least \$10,000 is required in all cases. The operator must furnish an acceptable bond in an amount fixed by USDA; have personnel qualified to weigh, inspect, and grade agricultural products; have adequate equipment to properly grade and weigh agricultural products; apply on a prescribed form; and pay initial inspection and licensing fees.

Once licensed under the act, warehouses are subject to periodic, unannounced examinations by AMS to ensure compliance with the act. It has been many years since AMS has met its traditional

goal of examining each federally licensed warehouse twice a year. During fiscal year 1980 federally licensed grain warehouses were examined an average of 1.61 times compared with an average 1.76 times during fiscal year 1979.

CCC CONTRACT WAREHOUSE EXAMINATIONS

CCC is a federally established corporation comprised of top USDA officials. In carrying out its various price-support programs, CCC contracts with public warehouses for the storage and handling of commodities which it owns or which have been pledged to it as collateral for Government loans. In the case of grain, CCC enters into these contracts through uniform grain storage agreements.

CCC's storage contract functions are carried out by USDA's Agricultural Stabilization and Conservation Service (ASCS) because CCC has no employees of its own. ASCS sets standards that CCC contract warehouses must meet. These are quite similar to AMS' requirements for federally licensed warehouses, the primary difference being that ASCS does not require warehouse operators to be bonded.

Under a memorandum of understanding with ASCS, AMS is responsible for determining the qualifications of CCC contract warehouses and operators and for protecting the Government's interest in commodities stored in such warehouses. AMS does so through (1) initial examinations and investigations when contract applications are filed, (2) periodic subsequent examinations of the warehouses and the commodities stored therein, and (3) continuing review of the warehouses' operations and financial stability. Its goal is to examine each CCC grain contract warehouse once a year; during fiscal year 1980 each of those warehouses was examined an average of 1.55 times.

In 10 States examinations of some nonfederally licensed CCC contract warehouses are carried out by State personnel rather than AMS personnel. AMS has cooperative agreements with nine States ^{1/} and a collaborator agreement with Minnesota under which State employees examine nonfederally licensed contract warehouses. (In the case of Minnesota, the State employees are trained and directly supervised by AMS personnel.) In both cooperative and collaborator agreement States, AMS personnel examine all federally licensed warehouses, even if they have storage contracts with CCC.

^{1/}The States of Idaho, Ill., Iowa, Kans., Nebr., Mo., Oreg., Wash., and Wyo. As of Mar. 1981 these States were responsible for 2,279 CCC contract grain warehouses--about 36 percent of the 6,321 such warehouses on that date.

STATE PROGRAMS

To our knowledge 29 States have laws to regulate grain warehousing (storage) or grain merchandising (buying and selling). These laws differ significantly in licensing and other requirements and in the methods used to monitor warehouse operations. Some are considerably less stringent than the Federal programs; others are more stringent. Appendixes I through IV summarize selected licensing requirements of these States, provide details on their net asset and bonding requirements, and categorize the degree to which they control the printing and distribution of warehouse receipts.

MANY GRAIN WAREHOUSES ARE NOT SUBJECT TO FEDERAL EXAMINATION

No one really knows exactly how many grain warehouses exist nationwide. The only estimate we could find was one developed in 1977 by the National Grain and Feed Association. It stated there were about 10,000 grain elevators handling about 16.5 billion bushels. As indicated in the following table, only about 6,400 warehouses (64 percent) are subject to Federal requirements and examinations.

Federally Examined Grain Warehouses

<u>Category</u>	<u>Number of warehouses</u>		
	<u>Under CCC contract</u>	<u>Federally licensed</u>	<u>Subject to Federal examination</u>
CCC contract warehouses:			
With Federal license	1,757	1,757	1,757
With State license	4,393	-	4,393
Unlicensed	171	-	171
Federally licensed but not under CCC contract	<u>-</u>	<u>77</u>	<u>77</u>
Total	<u>6,321</u>	<u>1,834</u>	<u>6,398</u>

The 6,321 contract warehouses have a combined capacity of about 5.9 billion bushels. ^{1/} As of September 30, 1980, only 4,912 warehouses (78 percent) were storing CCC-owned or loan collateral grain. About 83 percent of the CCC-owned and loan collateral inventory was concentrated in 4,099 warehouses located in 10 Midwestern States. As of December 31, 1980, about 64 percent of the CCC-owned inventory was concentrated in 6 percent of the contract warehouses.

^{1/}Average capacities of the CCC contract warehouses are: federally licensed, 1.66 million bushels; State licensed, 0.65 million bushels; and unlicensed, 0.81 million bushels.

OTHER STUDIES AND LEGISLATIVE PROPOSALS

In addition to our review, begun in January 1981, other studies and legislative proposals have been made in response to the grain elevator bankruptcy issue.

- On February 26, 1981, the Secretary of Agriculture appointed a USDA task force to review current grain warehouse laws and regulations. Testimony on its study was presented before the Senate Judiciary Committee's Subcommittee on the Courts on May 18, 1981. As of that date, no definite date had been set for issuing the task force's report.
- On March, 18, 1981, the National Association of State Directors of Agriculture, at the request of the Secretary of Agriculture, established a task force to study and make recommendations to the Secretary on the problem of grain elevator bankruptcies and failures. Its recommendations were sent to the Secretary on May 6, 1981.
- In March 1981 the Illinois Legislative Council issued a report "Grain Elevator Bankruptcies in the U.S.: 1974 through 1979."
- Four bills to amend the Bankruptcy Reform Act of 1978 relating to grain warehouses were introduced in the Congress during March 1981 (S. 839 by Sen. Dole, H.R. 2926 by Rep. Emerson, H.R. 2582 by Rep. Coleman, and H.R. 2593 by Rep. Glickman). Hearings on the Dole bill and grain elevator bankruptcies were held by the Senate Judiciary Committee's Subcommittee on the Courts on April 6 and May 18, 1981.
- A bill (H.R. 2523) to establish a national insurance program to protect against losses caused by public grain warehouse insolvencies was introduced in the Congress by Representative Albosta on March 17, 1981.
- Bills to strengthen warehouse laws, establish insurance programs, or amend State insolvency laws are being drafted or have been introduced or passed in at least nine State legislatures. 1/

OBJECTIVES, SCOPE, AND METHODOLOGY

To avoid duplication with the other studies mentioned above, our objectives on this assignment were to:

1/Ala., Ark., Idaho, Iowa, Kans., La., Minn., N. Dak., and Okla.

- Determine the past magnitude of the bankruptcy problem and the number of warehouses that are currently in financial difficulty.
- Identify some ways the current Federal programs could be strengthened.
- Identify issues that should be considered in evaluating certain possible program and legislative changes.

Although we obtained information on related laws and programs from 29 States, we concentrated our work on Federal licensing and examination programs because of our direct statutory audit authority to examine them and because they were the only programs on which USDA had readily available data. Also, we limited our work to grain warehouses (even though the Federal programs cover other commodities, such as cotton, rice, and processed commodities) because they comprise the vast majority of warehouses under Federal jurisdiction (about 86 percent of federally licensed warehouses and about 96 percent of CCC contract warehouses). Also, to our knowledge, grain warehouses have experienced the majority of bankruptcies to date.

We reviewed applicable legislation, implementing Federal regulations, and pertinent USDA policies and procedures. We interviewed USDA program officials in Washington and the field and obtained their views on matters discussed in this report. Although we did not visit individual warehouses, we interviewed officials of the National Grain and Feed Association in Washington, D.C., and obtained the views of other industry and farm groups and State agencies by reviewing their public comments to the USDA task force and testimony presented at hearings before the Senate Judiciary Committee's Subcommittee on the Courts. We also contacted two grain warehouse bonding companies and obtained information on financial requirements warehouses must meet to obtain a bond.

We coordinated our work closely with the USDA task force on grain elevator bankruptcies and attended several meetings of the task force working group. We also coordinated our work with USDA's Office of Inspector General. We interviewed its personnel knowledgeable in the area and reviewed its applicable audit reports.

We employed statistical sampling techniques and certain financial ratios to estimate the number of grain elevators in financial difficulty. Detailed information on the methods and criteria used and the reliability of the results are contained in chapter 2.

Our work was done primarily at AMS' Warehouse Division and ASCS' Inventory Management Division in Washington, D.C., and at AMS' National Warehouse Service Center, ASCS' Commodity Office, and the Office of Inspector General's Regional Office, all in Kansas City, Missouri.

CHAPTER 2

INFORMATION ON PAST BANKRUPTCIES AND

WHAT CAN BE DONE TO PREDICT FUTURE ONES

To our knowledge, the only overall information on past grain elevator bankruptcies is that developed by the 1981 USDA task force and that contained in two reports completed recently for the Illinois Legislative Council and ASCS. This information indicates that relatively few warehouses have gone bankrupt--about 2 percent during the period 1974 through early 1981. The task force and Illinois data, however, was based on information supplied by the States. Most of the reported bankruptcies were smaller warehouses in business less than 5 years.

We are unaware of any scientific predictions of the number of warehouses that may go bankrupt in the future. USDA requires federally examined warehouses to submit certain financial data, but its requirements and review procedures are not aimed at detecting financially unsound warehouses. Financial formulas for predicting bankruptcies in certain industries have been developed and shown to be reasonably accurate in tests on past cases. The Federal Deposit Insurance Corporation also uses financial ratio tests to identify banks with deteriorating conditions before they become serious. A predictive formula specifically tailored to grain warehouses does not exist, and formulas for other industries currently cannot be applied to grain warehouses. USDA does not require warehouses to submit all of the financial data needed to apply a predictive formula.

No bankruptcy forecasting technique can be entirely accurate, especially in the volatile grain-marketing business, where large sums can be lost from one day to the next through speculation. Nevertheless, if the proper data was required, such a technique could provide not only valuable information on the magnitude of potential grain warehouse bankruptcies but a useful means of identifying many potential bankruptcies before they occur. USDA is considering what actions it should take when insolvencies are threatened and should have this information before making its decision.

We attempted to estimate the number of grain warehouses in financial difficulty by applying certain commonly used financial ratios to available financial data of a random sample of warehouses under Federal jurisdiction. The results are by no means an indication of future bankruptcies because all the data needed to make reliable projections was not available. Our calculations, however, indicate that many grain warehouses may be in financial trouble--an estimated 4.75 percent of federally examined warehouses as compared with about 2 percent of all warehouses that have gone bankrupt in recent years. Projection of our sample results to the universe of 6,398 warehouses under Federal

jurisdiction indicates that 300 ^{1/} warehouses are in financial difficulty--a significant number, compared with the 177 insolvencies since 1975. This highlights the need for a reliable predictive formula.

INFORMATION ON PAST BANKRUPTCIES

Before the March 1981 report done for the Illinois Legislative Council, little or no data on the extent of grain elevator bankruptcies in the United States existed at either the Federal or State levels. The Illinois study, done in cooperation with the Illinois Department of Agriculture, with funding provided by the Illinois Legislative Council and a grant from USDA, began in September 1979 and culminated in a report entitled "Grain Elevator Bankruptcies in the U.S.: 1974 through 1979." The report is based on information supplied by 44 States in response to a questionnaire sent to all States. Because some States did not respond and others did not provide all requested information, the report is somewhat incomplete, but to our knowledge it is one of the best sources of overall data available.

According to the Illinois study, 23 States reported a total of 110 grain elevator bankruptcies for the period 1974-79. This represents about 1 percent of the estimated 10,000 grain warehouses in the Nation. Only 2 of the 110 were federally licensed; the rest were State licensed. ^{2/} Farmer claims totaled about \$25.8 million (for 76 cases). At the end of 1979, farmers had recovered about \$7.1 million (in 51 cases). Maximum farmer losses at that time (in the 76 cases) stood at about \$18.7 million, but this loss might be reduced by additional recoveries made after 1979. The average loss per farmer was \$4,300 (based on 30 cases) and ranged from zero to \$23,535.

The study indicated a greater tendency for bankruptcies among smaller elevators in operation for a relatively short time. Information from the study on capacities and years in operation of bankrupt warehouses was as follows:

Capacity:

Cases in which data was reported	64
Capacity less than 100,000 bushels	30 (47 percent)
Capacity less than 300,000 bushels	54 (84 percent)
Capacity range (note a)	1,700 bu. to 28 million bu.

^{a/}The 28 million bushels applies to a business that had 13 separate locations.

^{1/}At the 95-percent confidence level, this number could range from 173 to 427 warehouses.

^{2/}The study did not indicate how many of the 110 were CCC contract warehouses, and we could not readily determine this.

Years in operation:

Cases in which data was reported	49
In operation 5 years or less	25 (51 percent)
In operation 15 years or more	7 (14 percent)
Average years in operation	8.6

The number of bankruptcies per year (for the 80 cases in which a date was reported) were:

1974 -	2
1975 -	11
1976 -	17
1977 -	16
1978 -	16
1979 -	18

Although the 1981 USDA task force has not yet issued its report, the Executive Assistant to the Secretary of Agriculture testified on the task force's work on May 18, 1981, before the Senate Judiciary Committee's Subcommittee on the Courts. He stated that a compilation of reports submitted by the 50 States showed a total of 177 grain elevator insolvencies (about 2 percent) since January 1975. He noted, however, that the States may have counted only actual insolvencies and not cases where an operating license had been withdrawn prior to insolvency.

According to recent ASCS-compiled data, 27 CCC contract grain warehouse companies went bankrupt or went into receivership/insolvency under State laws from January 1979 through February 1981. ^{1/} Of these, 3 were federally licensed, 22 were State licensed, and 2 were unlicensed. These warehouses contained 4.6 million bushels of CCC-owned grain and 1.33 million bushels of CCC-held collateral grain. As of March 19, 1981, only 10 of the cases had been settled, with actual losses to CCC of 32,526 bushels. CCC losses in the other cases could be as much as 4.83 million bushels but could be substantially less depending on final settlements.

The only other information on past bankruptcies we found was that which two States provided in testimony on April 6, 1981, before the Senate Judiciary Committee's Subcommittee on the Courts. Kansas reported nine bankruptcies since October 1, 1967, with producer losses totaling \$322,180 and bonding company losses totaling \$421,134. Producer losses in eight of these cases ranged from zero (in four cases) to \$150,000. One 1981 case was still in litigation and losses had not been established. Capacities of the bankrupt elevators ranged from about 28,000 bushels to about 2.5 million bushels (for a firm with three locations, one of which had a capacity of about 2.3 million bushels). Indiana reported 20

^{1/}We could not readily determine how many of these were included in the Illinois study.

bankruptcies during the period 1975-80, with total estimated losses of about \$9.8 million. 1/

GRAIN ELEVATOR BANKRUPTCIES COULD
BE PREDICTED WITH ADEQUATE DATA

Mathematical formulas have been developed for predicting bankruptcies. Two formulas developed for manufacturing firms and railroads use financial ratios indicative of management ability and financial strength to arrive at a final score which, if below specified levels, indicates a high probability of failure. In tests on financial data of companies that had already gone bankrupt, these formulas accurately predicted the bankruptcy as long as 2 years in advance in 80 percent of the cases tested. It should be noted, however, that formulas are only as accurate as the financial data which companies report and that they are most effective when tailored to a specific industry segment. In fact, the manufacturing formula uses five ratios; the railroad formula, seven.

The Federal Deposit Insurance Corporation uses an integrated system to monitor certain types of insured banks between examinations to quickly alert it of the presence or possibility of deteriorating situations before they become serious. According to the Corporation, the system also aids in determining the frequency and scope of its examinations, allowing more effective use of examiner resources. The Corporation's system, developed and introduced in 1977, screens out banks with possible problems by applying selected financial ratio tests intended to measure capital adequacy, liquidity, asset-liability mix/growth, and profitability. Banks failing any of these tests are selected for further analysis and investigation to determine if action by the Corporation is needed, such as a special visit or an earlier than scheduled examination.

With enough research a predictive formula could be developed specifically for grain warehouses. Doing so, however, would require extensive research and sophisticated modeling techniques. According to a March 17, 1981, letter to the USDA task force from a Purdue University professor, research in this area is already underway at that institution. This research is focusing on developing an early warning model for country grain elevator bankruptcies. Similar to the predictive formulas noted above, the Purdue model relies on a formula based on four key financial ratios: working capital as a percentage of sales (total current assets minus total current liabilities divided by total sales); ownership equity ratio (net worth divided by total assets); return on sales (net profit divided by total sales); and asset turnover ratio (total sales divided by total assets). The model,

1/We could not determine how many of the cases reported by Kans. and Ind. were included in the Illinois study and USDA's figures.

however, is still in development, but a preliminary report of findings was sent to the USDA task force in late May 1981.

ADDITIONAL DATA NEEDED TO MAKE PREDICTIONS

A basic problem must be overcome before a forecasting formula can be used for grain warehouses under Federal examination programs--the lack of appropriate financial data needed to apply the formulas. The predictive formulas discussed above use financial ratios dependent on sales data. Although AMS and ASCS require federally licensed and CCC contract warehouses to file financial data at least annually, they require only a basic balance sheet statement (assets, liabilities, and net worth) which does not include data on company sales. Certified statements are encouraged, on a voluntary basis, but are not required. According to AMS, about 67 percent of federally licensed warehouses currently furnish statements prepared by a certified public accountant. The percentage would be slightly less for CCC contract warehouses.

The purpose of the current financial data requirements and review procedures is to determine if a warehouse meets minimum net asset requirements of the U.S. Warehouse Act or CCC regulations, as appropriate. They are not intended or designed to determine the warehouse's financial stability or to predict bankruptcies. In the case of federally licensed warehouses, the data is also used to determine if the warehouse has a sufficient bond, as required by the act. Data on assets is necessary to determine proper bonding levels because warehouses are permitted to substitute higher than required bonding levels to make up for deficiencies in net asset requirements.

On the surface it would appear that sales data would not be directly relevant to the grain warehousing business which, strictly speaking, is limited to the storage of grain owned by others for a fee. In reality, however, almost all grain warehouse operators are also grain dealers, involved in buying and selling grain for themselves and others. Quite often the financial losses a warehouse sustains in its merchandising activities lead to bankruptcy. Also, it is important to remember that grain merchandising is a volatile business, subject to substantial price changes from day to day which can make or break dealers depending on their investment wisdom. For this reason, there will likely always be sudden, unexpected bankruptcies which no financial forecasting formula, regardless of its reliability, could predict.

Current Federal financial review procedures could be expanded to better identify warehouses in financial difficulty by requiring relatively minor changes in the financial data already required of warehouses. With information on sales, AMS could, at a minimum, compute and determine the trend of financial ratios indicative of financial health that cannot be computed with the data now required. In fact, with modest changes in its current requirements, AMS could likely obtain the information necessary to apply a forecasting formula. For example, computing the

predictive formula for manufacturing companies discussed previously requires only about a dozen items normally found in a corporation's annual financial statements.

A 1978 USDA task force which reviewed the U.S. Warehouse Act licensing and examination program made a similar observation. Its report noted that a warehouse's financial condition is a significant indicator of its probability for failure. Therefore, in addition to collecting information on assets and bonding requirements, the task force said financial data should be collected to assist in identifying potential insolvencies. The task force said that, at a minimum, profit and loss statements and cash flow statements should be obtained.

The 1978 task force recommended that the purpose of collecting financial data be expanded accordingly and that guidelines be developed to provide for a more systematic monitoring of licensed warehouses' financial circumstances and the integration of that information into the total review of warehouse operations. The Director of AMS' Warehouse Division told us that as of March 31, 1981, no action had been taken on these recommendations. He said that AMS views these recommendations as secondary alternatives to strengthening the examination procedures. In an April 22, 1981, response for the record to the Senate Appropriations Committee's Subcommittee on Agriculture, Rural Development, and Related Agencies, AMS said it had not acted on these recommendations because it had no justification for significantly increasing the warehouses' reporting burden unless the examination program was expanded into the merchandising area.

We believe, however, that more meaningful financial analyses are one way of strengthening the overall examination program. With such analyses and an early warning formula, AMS and ASCS would be in a better position to identify potential bankruptcies. A reliable early warning system would also provide useful information on the magnitude of potential grain elevator bankruptcies--information we believe should be considered in assessing the need for significant, and possibly costly, changes in other examination procedures.

USDA is considering taking a more active role when insolvencies are likely to occur. According to its May 18, 1981, testimony before the Senate Judiciary Committee's Subcommittee on the Courts, its historic role has been a passive one. However, it is now considering what it could do to become more active and is reviewing actions it might take under the U.S. Warehouse Act to deal with threatened or actual insolvencies. We believe information on the magnitude of potential bankruptcies, developed by using a predictive formula, is necessary for USDA to determine what, if any, actions would be appropriate.

OUR ESTIMATE OF WAREHOUSES
IN FINANCIAL DIFFICULTY

We attempted to estimate how many of the 6,398 grain warehouses in the Federal programs are in financial difficulty by applying certain financial ratios and self-developed criteria to the financial data of a random sample of 400 warehouses. We were, of course, limited to ratios that could be computed using data in agency files. Although our technique was not designed to indicate the number of future bankruptcies, we believe it provides a reasonable means of identifying those grain warehouses that may be in financial trouble.

To classify warehouses as being in difficulty, we used the following criteria and rationale. A warehouse had to meet all three criteria to be classified as being in financial difficulty.

1. A current ratio (current assets divided by current liabilities) of less than 1:1 for the current year, with either no improvement or a downward trend over previous years we reviewed. If the ratio is less than 1:1, then current liabilities exceed available current assets and short-term liquidity is highly questionable. Although the customary standard for this ratio is 2:1, we could not find any industry averages to substantiate this requirement. The two grain warehouse bonding companies we contacted require a current ratio of at least 1:1, or the warehouse operator must put up collateral to get a bond. Also, at least one State (Wisconsin) requires a current ratio of at least 1:1 in order to obtain a grain warehouse license.
2. A debt to total assets percentage of more than 58 percent for the current year, with either no improvement or an upward trend for the previous years we reviewed. The debt to total assets ratio is derived by dividing total liabilities by total assets. It indicates the extent of contributions by creditors when expressed as a percentage; the higher the percentage, the more contribution creditors make to the warehouse's financial structure. The closest industry average we could find for this ratio was a standard for "Motor Freight and Warehousing," which shows that total liabilities to net worth should not exceed 1.4:1. This equates to a debt to total assets ratio of 1.4:2.4, or 58 percent.

3. An average net profit to net worth percentage of less than 11.2 for the years we reviewed. The net profit 1/ to net worth percentage identifies return on investment. Again, we used the "Motor Freight and Warehousing" standard which identifies an industry average of 11.2 percent. We set as a minimum requirement that this percentage average at least 11.2 for the period for which we reviewed financial statements.

We tested our criteria on the financial data that had been submitted to AMS by 27 CCC contract grain warehouse firms that went bankrupt or into receivership/insolvency from January 1979 through February 1981. Of these, nine firms (33 percent) met our criteria for being in financial difficulty. However, information compiled by ASCS on the reasons for the bankruptcies indicated that factors not reflected in financial data (such as speculation losses and major shortages) played a role in almost all of the cases that did not meet our criteria. If these cases involving other than financial factors were eliminated, the percentage of the remaining warehouses meeting our criteria would be substantially greater. As a result, we believe our criteria, although by no means foolproof, provide a reasonable indication of warehouses in a questionable financial position.

We then applied our criteria to a random sample of CCC contract grain warehouses using financial data the warehouses had reported to AMS. From a universe of 6,321 CCC contract warehouses, we randomly selected a sample of 400 warehouses. (Because only 77 federally licensed warehouses are not CCC contract warehouses, the 6,321, for all practical purposes, represented the universe of all grain warehouses under Federal jurisdiction.) Nineteen of the sample warehouses--4.75 percent--met our criteria for being in financial difficulty. By applying this percentage to our universe, we estimated that 300 2/ warehouses subject to Federal examination may be in financial difficulty. This estimate does not mean that 300 bankruptcies are likely to occur in the near future. But, compared with the rate of past bankruptcies, it is a cause for concern which should be pursued further through scientific predictive techniques.

Other information on the 19 sample warehouses which met our criteria follows.

--Fourteen were State-licensed warehouses with an average capacity of 431,000 bushels. One of these was in the

1/Warehouses are required to report profit data, but often do not. When the data was reported, we used it. In cases where the data was not reported, we estimated profit based on a change in applicable equity accounts from year to year.

2/At the 95-percent confidence level, this number could range from 173 to 427 warehouses.

process of being liquidated and two had been removed from CCC's approved warehouse list at the time of our review.

--Five were federally licensed warehouses with an average capacity of 791,000 bushels. At the time of our review, two of these were in the process of being sold because of financial difficulties.

--The 19 warehouses are located in seven States. The largest number (six) are in Iowa--the State reporting the most bankruptcies from 1974 through 1979 in the Illinois study.

CONCLUSIONS

Few grain warehouse bankruptcies have occurred--about 2 percent of all warehouses over the past 7 years. Reliable projections of the number that may go bankrupt in the foreseeable future have not been made, to our knowledge, and cannot be made with data currently available on warehouses subject to Federal examination.

Our self-developed criteria, although not designed to measure future bankruptcies, indicate that a significant number of grain warehouses may be in financial difficulty--an estimated 300 ^{1/} warehouses subject to Federal examination. While this estimate does not mean 300 bankruptcies are likely in the near future, it is a cause for concern in light of the much lower rate of bankruptcies to date. For this reason, we believe a predictive formula needs to be developed and applied to more scientifically and accurately gauge the potential magnitude of future grain warehouse bankruptcies.

Formulas currently exist for certain industries which in tests predicted past bankruptcies with reasonable accuracy up to 2 years in advance on the basis of a firm's financial data. The Federal Deposit Insurance Corporation also uses financial ratio tests to identify deteriorating banks before the situations become serious. A predictive formula specifically tailored to the grain warehousing industry has not yet been developed, although research is underway. Developing a predictive formula, however, requires extensive research and sophisticated mathematical modeling techniques.

No predictive formula will ever be totally reliable. However, even with the volatile nature of the industry, a predictive formula offers considerable potential for making the current Federal examination programs more effective. With this information at its disposal, USDA would be in a much better position to identify potential bankruptcies before they occur. This information is necessary to determine what, if any, actions USDA should

^{1/}At the 95-percent confidence level, this number could range from 173 to 427 warehouses.

take when insolvencies are threatened, and USDA should have the information before deciding what actions are appropriate. Also, this information is critical to assessing the need for major changes in the current programs.

The current Federal financial review procedures could be more effective in gauging the financial health of grain warehouses. By requiring warehouses to submit the proper sales data, AMS could compute and determine the trend of commonly used financial ratios indicative of financial health. Doing so would require only minor changes to current financial data requirements. This type of data would, of course, also be necessary in order to use a predictive formula, and it would be a useful means of identifying warehouses requiring extra attention.

RECOMMENDATIONS TO THE
SECRETARY OF AGRICULTURE

The Secretary of Agriculture should direct the AMS Administrator to:

- Require federally examined warehouses to submit the financial data necessary to compute commonly used ratios indicative of financial health. The Administrator should then require AMS personnel to compute and determine the trend of these ratios as part of their routine financial reviews.
- Develop and implement a predictive formula for grain warehouse bankruptcies. This formula would be useful in determining the magnitude of the potential bankruptcy problem and in establishing priorities and frequencies for Federal examinations. It should be developed before USDA decides what actions to take on threatened insolvencies.

CHAPTER 3

FEDERAL WAREHOUSE PROGRAMS NEED STRENGTHENING

Certain weaknesses in the current Federal warehouse programs make it difficult to ensure that warehouses have a sufficient quantity and quality of grain to cover their storage obligations--the basic purpose of the programs as now structured. For one, warehouses do not issue warehouse receipts for all storage grain. Second, certain States do not control the printing and distribution of warehouse receipts so that Federal examiners can properly account for these documents when examining nonfederally licensed contract warehouses.

According to the Director of its National Warehouse Service Center, AMS uses generally accepted accounting principles in reviewing financial data submitted by warehouses to determine compliance with net asset and bonding requirements. It neither requires warehouses to follow these principles when compiling the data nor provides specific instructions as to what data should be reported. As a result, it has no assurance that data reported by various warehouses is consistent, and time must be spent identifying erroneous data. Also, AMS permits certain assets to be counted at appraised value rather than at cost less accumulated depreciation on depreciable assets, as specified by the generally accepted principles. This obviously can inflate a warehouse's apparent net worth.

The Federal programs, no matter how effective, do not provide protection for all grain depositors. About 36 percent of grain warehouses are subject only to State requirements, which range from nonexistent to very stringent. Although we did not evaluate the effectiveness of State requirements and examination programs, differences in basic protective requirements, such as net assets and bonding, suggest a corresponding variance in the degree of protection afforded depositors.

FEDERAL WAREHOUSE EXAMINATIONS

The U.S. Warehouse Act is administered through a program of comprehensive warehouse examinations. The primary purpose of these and similar examinations of CCC contract warehouses is to verify that the warehouse has a sufficient quantity and quality of grain on hand to satisfy its storage obligations. The effectiveness of these examinations depends on the reliability of certain key warehouse documents and controls. Key documents include warehouse receipts, scale tickets, daily position records, and customer account records.

Warehouse receipts

Under the Uniform Commercial Code (which has been adopted by all States except Louisiana), a warehouse receipt is a certificate of title for agricultural products stored in a warehouse. The U.S. Warehouse Act requires that warehouse receipts issued for agricultural products contain the following information:

- Warehouse location.
- Date receipt was issued.
- Consecutive receipt number.
- Statement showing to whom the grain will be delivered.
- Rate of storage charges.
- Description of the agricultural commodity, quantity, and identification of weight and package.
- Grade or other class of the commodity.
- Operator's signature.

All such receipts are a record of evidence to the depositor that his products are in storage and provide reasonable assurance that the product represented by the receipt will be returned to him upon surrender of the receipt and a valid request for delivery. The warehouse receipt can be, and often is, used for loan collateral by producers and warehouse operators.

Scale tickets

Whenever a quantity of grain moves into or out of a warehouse, the grain is weighed and a scale ticket, sometimes called weight ticket, is issued. Scale tickets are documents representing to the holder that a deposit or withdrawal has been made at the issuing warehouse. Under provisions of the Uniform Commercial Code, the scale ticket is not a legal document of title.

Daily position record

All movement of grain into and out of a warehouse is recorded on a daily position record form. With this document, the warehouse manager knows how much stock is on hand and whether it belongs to the warehouse (company-owned grain) or to customers.

Customer account records

When a customer brings grain to a warehouse, the grain can (1) remain in open storage, (2) be deposited for storage under a warehouse receipt, or (3) be sold or contracted to the warehouse. To accommodate the first two stock categories, where grain is held by a warehouse but owned by the depositor, the warehouse operator maintains customer account records to reflect grain held in open storage and grain held as warehouse-receipted stock. A warehouse may also maintain a set of customer account records showing that part of the house inventory that is being held as assets to balance against warehouse liabilities for outstanding purchase contracts.

Types of Federal examinations

There are four types of Federal grain warehouse examinations: original, amendment, subsequent, and special.

Original

This examination is made after an application for a Federal license or before approval of a storage agreement with CCC. Its primary purpose is to determine whether the warehouse, the warehouse operator, and operating personnel meet the basic standards for licensing and/or approval. A secondary purpose is to determine the storage capacity and obtain other information to facilitate future examinations.

Amendment

This examination is made when a change in either the facility or operating entity requires a revision of the existing Federal license or storage agreement.

Subsequent

This periodic, unannounced examination is made after issuance of a Federal license and/or approval of a CCC storage agreement. It is the backbone of the Federal examination programs through which AMS (or State) examiners represent the interests of private depositors and CCC. It consists of physically measuring and sampling the grain inventories to determine if the grain in store (on hand) is sufficient to meet all storage obligations with respect to quality and quantity. Also, the examination determines if the measured inventory balances with available records. This examination consists of the following major steps:

- Taking immediate possession and control of the warehouse receipts.
- Measuring the physical inventory of stocks on hand and comparing that measurement to the record of stocks as shown on the daily position record.
- Balancing the total open storage and warehouse receipt amounts on the warehouse customer records with the inventory shown on the daily position record.
- Preparing a record of the customer open storage accounts.
- Carefully auditing the warehouse receipts to be sure that none are missing and that all returned receipts are properly endorsed and canceled.

These five steps provide for an accounting of all storage obligations against the warehouse's physical inventory at the time of the examination.

Special

This examination is made to develop special information at a time other than a subsequent examination. This may include information not normally developed in the subsequent examination or may be an expansion of an examination element when a complete subsequent examination is not required.

PROBLEMS IN VERIFYING STORAGE OBLIGATIONS

Once grain is deposited and mixed with other grain in a warehouse, it cannot be distinguished from grain owned by other depositors or the warehouse itself. As a result, written records of all transactions are the only way of determining how much depositor-owned (storage obligation) and warehouse-owned (house inventory) grain there should be.

The Federal warehouse examination programs are primarily concerned with the records showing depositor-owned rather than warehouse-owned grain. Therefore, the controls over and reliability of the warehouse documents mentioned above are critical. An examiner's ability to determine whether grain of sufficient quality and quantity is on hand to meet all storage obligations is hindered if documentary evidence accurately reflecting those storage obligations is not maintained.

We identified two problem areas that hinder an examiner's ability to accurately determine total storage obligations. They relate to documenting the amount of depositor-owned grain in open storage and the degree to which warehouse receipts can be accounted for in certain States.

Open storage

A producer normally delivers grain to a warehouse for either storage or sale. Upon delivery, the producer receives a scale ticket showing the quantity and quality of grain delivered. The scale ticket should be exchanged for either a warehouse receipt (in the case of a storage transaction) or a sales contract (in the case of a sales transaction). If these procedures are followed, clear documentation of the transaction is established. A warehouse's total storage obligation thus consists of the quantity and quality of grain for which it has issued warehouse receipts (receipted obligations) and for that in open storage (open storage obligations). Open storage obligations should be reflected in the warehouse's records, but the accuracy of those records must be established during the examination.

As noted previously, scale tickets are to be issued for all grain entering or leaving the warehouse. These transactions should also be posted on the warehouse's daily position record, which should thus be a running record of the inventory that should be on hand. Grain delivered for storage (either receipted or open storage grain) should also be posted to customer account records.

If the records are accurate, the warehouse's actual inventory should match that shown on the daily position record, and its storage obligation should match the total storage obligation reflected in customer account records. If the open storage obligations, which are backed only by scale tickets (an uncontrolled document), are not accurately recorded or are fraudulently manipulated, the daily position record could easily indicate an erroneous inventory. These errors or manipulations will not be apparent to the examiner because normally only about three customer account records are traced to the daily position record during an examination. Also, because examiners do not verify the accuracy of customer account obligations with the depositors, a dishonest warehouse operator could manipulate the customer account records to agree with an erroneous daily position record and a comparison of the two would still not indicate a problem.

Information that the Illinois study and ASCS developed on past grain elevator bankruptcies indicates that poor or fraudulent recordkeeping was often a factor. For example, ASCS found that poor records were involved in a recent bankruptcy of a CCC contract warehouse in the Midwest. An examination of the warehouse's storage obligation just before the bankruptcy revealed shortages in recorded storage obligations of 1,241,644 bushels of corn and 581,963 bushels of soybeans.

The 1978 USDA warehouse task force also noted the problems of verifying open storage obligations. It concluded that the practice of maintaining inventories in open storage was increasing and that the well-established examination procedure of auditing warehouse receipts was of little value when the local practice is to maintain large open storage inventories for which warehouse receipts are not issued. We agree because when grain is held in open storage, where delivery for storage is not backed by a warehouse receipt (a controlled document), there is no guarantee that all open storage obligations are being identified during Federal warehouse examinations.

The task force recommended that improved examination procedures, based on a controlled document, be developed for warehouses with large open storage inventories. We believe the basic problem here is the practice of not issuing warehouse receipts promptly for all grain delivered for storage--not the examination procedures themselves. In the event of insolvency, this practice not only defeats the purpose of the warehouse receipt audit, it also puts depositors in the position of not having a clear proof of title. If warehouses were required to issue warehouse receipts promptly, there would be controlled documentation against which examiners could verify total storage obligations. USDA does not require this at federally licensed or CCC contract warehouses. Montana requires that warehouse receipts be issued promptly for all storage grain.

The 1978 task force also noted that storage obligations reflected in customer account records are not confirmed with depositors during Federal examinations. It recommended that

examiners confirm these records with a statistical sample of depositors as part of routine subsequent examination procedures. We agree that this would be desirable because it would provide a check on the accuracy of the customer account records which would help ensure that spot checks of the records against the daily position record and issued warehouse receipts would be more effective in detecting errors in the daily position record. The Deputy Director of ASCS' Inventory Management Division pointed out that this procedure would increase examination time, but we believe the extra effort would be worthwhile considering the added assurance it would provide.

Warehouse receipt accountability

An important element of Federal warehouse examinations is a careful audit of warehouse receipts to be sure none are missing and that all returned receipts are properly endorsed and canceled. Unless all receipts in the warehouse operator's possession can be accounted for, examiners cannot be sure they have identified all issued receipts. Therefore, they cannot be sure they have accurately determined the warehouse's total storage obligation.

Accounting for warehouse receipts also is essential in detecting cases in which the operator may have issued receipts fraudulently. The 1978 task force noted that, when in financial difficulty, operators of warehouses in which receipts are not adequately controlled sometimes print and issue receipts to themselves for grain they do not own and then use these receipts as collateral for loans. Information ASCS developed also indicates that this was a factor in past bankruptcy cases.

A recent case involving CCC contract warehouses in two States illustrates this situation. The operators issued warehouse receipts from their warehouses in one State to a bank in another State for loan collateral--receipts of which Federal and State examiners were not aware. When examiners later learned of the receipts accidentally, they found that 116 loan collateral receipts had been issued covering 163,000 bushels of soybeans, 138,000 bushels of wheat, and 499,096 hundredweight of sorghum. They also found that the warehouse-owned inventory would only cover a small fraction of the collateral obligation and that the actual sorghum on hand was 58,570 hundredweight short of that indicated in the warehouse's records. In a subsequent letter to the operators, ASCS noted that issuance of warehouse receipts against grain not in inventory was contrary to the warehouse's uniform grain storage agreement, the Uniform Commercial Code, and all known responsible warehousing practices.

At the time this case occurred, the State in which the receipts were issued did not control the printing and distribution of warehouse receipts. However, it has since proposed, but not yet enacted, legislation by which the State would distribute receipts to warehouses and account for each issued receipt during State examinations.

This example highlights the need to be able to accurately account for all warehouse receipts when examining federally licensed or CCC contract warehouses. At federally licensed warehouses, warehouse receipts are accountable documents because the warehouses issue Federal warehouse receipts, the printing, numbering, and distribution of which AMS controls. Because CCC does not have similar procedures, the accountability of receipts at CCC contract warehouses (that are not also federally licensed) depends on the degree to which the States in which they are located control the receipts. In those cases, the adequacy of the State controls has a direct impact on the integrity of the Federal examination.

The State warehouse laws we reviewed vary significantly with regard to controls over the printing, distribution, and monitoring of warehouse receipts. Of 29 States that provided us information, only 13 actually print warehouse receipts and distribute them to State-licensed warehouses. These States also monitor receipts by verifying open and canceled ones during State examinations. For example, Missouri laws require all warehouse receipts to be standardized, serialized, and obtained exclusively from State-authorized printers. Every receipt must be accounted for before additional receipts can be obtained. The other 16 States have varying lesser degrees of control (or no controls) which make accountability questionable or impossible. (App. IV summarizes these State controls.)

MORE UNIFORMITY IS NEEDED IN REPORTING FINANCIAL DATA

As noted in chapter 2, AMS and ASCS require all federally licensed and CCC contract grain warehouses to submit financial information at least annually. AMS reviews this financial information, which consists of basic balance sheet data, to ensure that the warehouses continue to meet net asset and bonding requirements of the U.S. Warehouse Act and ASCS regulations. 1/

Because AMS has not provided warehouses with adequate accounting and reporting guidelines, however, warehouses may not be following uniform and consistent accounting practices. In such a situation, AMS may have difficulty measuring the financial position and activities of warehouses to determine whether net asset and bonding requirements are being met. Also, the opportunities for expanding the data requirements and review procedures to better identify warehouses in financial difficulty, as discussed in chapter 2, are impeded when accounting data is not comparable.

1/In Kans., Nebr., and Ill., financial statements for State-licensed CCC contract warehouses are received and reviewed by State agencies as authorized by AMS. Financial statements for federally licensed warehouses in these States are received and reviewed by AMS.

The Director of AMS' National Warehouse Service Center told us that although not specified in AMS' written procedures, AMS reviews the financial information provided by warehouses in light of generally accepted accounting principles--principles applied in the development of financial data that have achieved general acceptance from practitioners in the accounting profession. Through this process of standard setting, accounting and reporting is improved and achieves a degree of uniformity and comparability. Thus, the users of financial information, familiar with the standards that have been applied in preparing the information, can view it with confidence, interpret it properly, and compare it with information in other reports prepared on the same basis.

Conversely, financial information that is not prepared in accordance with these principles can render any comparisons within or between companies invalid. For example, we identified several cases in which AMS had allowed warehouses to account for fixed assets at appraised values. In using generally accepted accounting principles, the value of real property and equipment should be measured on the basis of cost (the price paid when the assets were acquired) less accumulated depreciation on depreciable assets. In one of these cases, AMS permitted a warehouse operator to use independently determined appraised values for real property and equipment to meet net worth requirements. Shortly thereafter, the warehouse went bankrupt. Previous to this, the operator had reported real property and equipment at appraised values based on his judgment of their fair market values. In another case, a warehouse operator reported real property and equipment at appraised values for several years prior to the warehouse's bankruptcy. Analysis of its financial data submitted to AMS disclosed that the warehouse was only able to report a positive net worth based on the recorded appreciations of land and equipment. Both of these instances created an impression that the warehouses' economic net worth was adequate; whereas, in reality, their economic condition was declining and they ultimately went bankrupt.

Also, we identified another factor that may contribute to a lack of comparability in data received from warehouses. Although AMS provides warehouses a standard financial data form (TW-51), written instructions are not provided on how to prepare the form or what specific items to include or exclude under each required data element. As a result, the data received may not be uniform and AMS accountants must spend considerable time weeding out inappropriate data. This problem is further compounded by the fact that AMS permits warehouses to submit their normal company financial statements in lieu of the prescribed form.

The Director of AMS' Warehouse Division and the Deputy Director of ASCS' Inventory Management Division believe warehouse operators should be required to submit certified financial statements. This option is being considered by the USDA task force.

STATE WAREHOUSE LICENSING REQUIREMENTS

Although we did not evaluate the effectiveness of State requirements and examination programs, we obtained information on licensing laws and regulations from States that AMS identified as having some kind of grain storage or grain dealer programs. We found that the various State rules and regulations range from practically nonexistent to very stringent. For example, North Carolina had a grain storage law until 1975. Grain warehouses there now have a Federal license or none at all. At the opposite extreme, Illinois has laws governing both grain storage and grain merchandising. We also found vast differences in basic licensing requirements, such as those regarding bonding and net assets. Major differences in these areas are discussed below.

Bonding requirements

A warehouse bond is a surety contract between a warehouse operator and an approved surety company to protect third parties having an interest in the products stored in the warehouse. The amount of the bond required may have a direct relationship to any monetary settlement a depositor may receive in the event of the warehouse's insolvency. The bonding requirement is significant not only because of the protection it affords grain depositors, but also because the bonding company reviews the warehouse's financial circumstances before issuing a bond.

The bond requirement for each warehouse covered under the U.S. Warehouse Act is fixed at a rate of 20 cents a bushel for the first 1 million bushels of licensed capacity; 15 cents a bushel for the next 1 million bushels; and 10 cents a bushel for all additional licensed capacity--provided that the amount of the bond is not less than \$20,000 or greater than \$500,000. Each federally licensed warehouse must furnish a new bond each year on or before the anniversary date of its license. Although ASCS does not require a surety bond for CCC contract warehouses, it may require a warehouse operator to furnish a bond to make up deficiencies in net worth or other financial inadequacies.

Our examination of the various State warehouse laws showed significant differences in bond requirements. These differences are illustrated in the following table which compares the bond amounts that would be required for warehouses of various sizes under the U.S. Warehouse Act and selected State laws. (App. II provides a more detailed listing of bonding requirements for each State.)

	Bond amount required when warehouse capacity (bushels) is				
	<u>40,000</u>	<u>100,000</u>	<u>500,000</u>	<u>1,000,000</u>	<u>2,000,000</u>
U.S. Warehouse Act	\$20,000	\$ 20,000	\$100,000	\$200,000	\$350,000
Ill.	6,000	10,000	10,000	10,000	10,000
Wash.	25,000	25,000	90,000	180,000	360,000
Ky.	25,000	47,000	140,000	240,000	440,000
Mich.	30,000	60,000	260,000	400,000	400,000
N. Dak.	50,000	100,000	500,000	600,000	800,000

One State, Kansas, ties the bond requirement computation to the grain's market price. The market price is established based on the closing price of wheat on the first Monday in April of each year. This market price is then used until the next April market price is obtained.

Net asset requirements

Net assets are the difference between total assets and liabilities. This amount is also referred to as net worth or total equity. The amount of net assets available is an indication of the warehouse operator's ability to pay indebtedness arising from the warehouse operations. The U.S. Warehouse Act requires a warehouse to maintain total net assets of at least 20 cents a bushel for the maximum number of bushels the warehouse could accommodate (capacity), provided the warehouse has net assets of at least \$10,000. A higher than required bond level can be substituted for a deficiency in required net assets as long as the \$10,000 minimum is maintained.

Significant differences exist in the amount of net assets required for warehouse licensing. Of the 28 States with storage license requirements, 13 have no net asset requirements. Examples of net assets which would be required for warehouses of various capacities by other States and the Federal Government are as follows. (App. III provides a more detailed listing of the States' net asset requirements.)

	Net assets required when warehouse capacity (bushels) is				
	<u>40,000</u>	<u>100,000</u>	<u>500,000</u>	<u>1,000,000</u>	<u>2,000,000</u>
U.S. Warehouse Act	\$10,000	\$20,000	\$100,000	\$200,000	\$400,000
CCC	25,000	25,000	50,000	100,000	200,000
Ill.	20,000	25,000	165,000	340,000	640,000
Iowa	25,000	25,000	25,000	25,000	25,000
Kans.	4,000	10,000	50,000	100,000	100,000
Mo.	6,000	15,000	75,000	150,000	150,000
Okla.	10,000	10,000	10,000	10,000	10,000
Wis.	25,000	25,000	50,000	100,000	200,000
Wyo.	8,000	20,000	100,000	200,000	400,000

Casualty insurance requirements

Casualty insurance provides protection against loss from causes such as fire, lightning, and tornado. The U.S. Warehouse Act does not specifically require casualty insurance but states that the operator should obtain it if a grain depositor so requests. When the warehouse does not carry insurance, receipts must state that the grain is uninsured. According to CCC's uniform grain storage agreements, grain under CCC loan must be insured for its full market value, while CCC-owned grain does not have to be insured because the Federal Government is a self-insurer.

Twenty-three of the 29 States we reviewed require casualty insurance for the full market value of the stored commodities. Nebraska and Kansas, however, specify allowable deductible provisions and how the market value is to be determined. Wisconsin does not require casualty insurance for unbonded warehouses with storage capacities of less than 50,000 bushels.

CONCLUSIONS

Current Federal examination procedures would adequately determine storage obligations if warehouses were required to issue warehouse receipts for all storage grain as soon as possible after delivery has been completed and if the distribution of warehouse receipts to the warehouses was controlled so that all receipts could be accounted for in the examination (as is currently the case in the U.S. Warehouse Act program and in certain States). Confirmation of storage obligations shown on customer account records with a sample of depositors would also increase assurance that the warehouse's total storage obligation has been accurately determined.

The 1978 USDA warehouse task force also noted that Federal examination procedures are of little value in verifying storage obligations in cases where large amounts of grain are maintained in open storage accounts, for which warehouse receipts or sales contracts are not issued. In such cases, no reliable way exists to verify the amount of grain that is a storage obligation because the transaction is not backed by a controlled document. The task force recommended that more adequate examination procedures be developed for this situation and that the storage obligations reflected in the warehouse operator's customer account records be confirmed with a statistical sample of customers as part of the examination process.

The basic problem here is not the examination procedures but rather the practice of not documenting storage obligations through timely issuance of warehouse receipts. This practice not only hampers the purpose of warehouse examinations; it places depositors in the position of not having clear proof of title if the warehouse becomes insolvent or declares bankruptcy.

Unlike the U.S. Warehouse Act program, some States do not control the issuance of warehouse receipts in such a manner that they can be accounted for during the examination process. As a result, when examining a nonfederally licensed CCC contract warehouse in these States, examiners cannot be sure they have accurately determined the total amount of depositor-owned grain the warehouse should have in inventory. This, of course, jeopardizes the examination's basic purpose--certifying that the warehouse has a sufficient quantity and quality of grain to meet its storage obligations. It also makes it difficult, if not impossible, for examiners to detect a situation in which the warehouse operator has fraudulently issued receipts as loan collateral on depositor-owned or nonexistent grain.

AMS also could improve the effectiveness of its review of financial data submitted by grain warehouses. By providing warehouses specific written instructions on how to complete the financial data form and by requiring that they follow generally accepted accounting principles in preparing financial data, AMS would likely receive more consistent data and not have to spend as much time weeding out incorrect data during its review. Also, in determining a warehouse's fixed assets, AMS needs to value real property and equipment at cost less accumulated depreciation on depreciable assets rather than appraised value, in accordance with generally accepted accounting principles.

We did not evaluate the effectiveness of State licensing and examination programs, but the range in basic licensing requirements suggests a corresponding range in the degree of protection afforded public depositors.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

The Secretary should:

- Direct the Administrator, ASCS, to ensure that all CCC contract grain warehouses use warehouse receipts that can be accounted for during Federal warehouse examinations. Ways of doing this include (1) encouraging States with insufficient controls over the printing and distribution of warehouse receipts to upgrade their requirements and (2) requiring adequate controls as a prerequisite for obtaining a storage contract.
- Direct the Administrators, AMS and ASCS, to require that all federally licensed and CCC contract grain warehouses give depositors warehouse receipts for all storage grain as soon as is practicable after delivery is completed.
- Direct the Administrator, AMS, to require that:
 1. Grain storage obligations reflected on warehouse customer account records be verified with a statistical sample of depositors as part of normal subsequent examination procedures employed at

federally licensed and CCC contract grain warehouses.

2. AMS provide warehouse operators with specific written instructions on how to complete required financial forms.
3. AMS value fixed assets according to generally accepted accounting principles--cost less accumulated depreciation on depreciable assets. Warehouse operators should then be required to follow generally accepted accounting principles in filling out financial data forms submitted to AMS.

CHAPTER 4

ISSUES TO CONSIDER IN REVISING

THE CURRENT FEDERAL PROGRAMS

The 1981 USDA task force studying grain elevator bankruptcies placed major emphasis on identifying possible alternatives for strengthening the current Federal licensing and examination programs. Its alternatives were contained in testimony presented before the Senate Judiciary Committee's Subcommittee on the Courts on May 18, 1981. We understand that the task force will be issuing a report at a later date and that it will be studying these alternatives in greater detail to determine which, if any, should be implemented.

Based on our work, we believe the grain elevator bankruptcy problem warrants further careful study and evaluation before major program and legislative changes are made. We identified one overriding issue that we believe USDA should resolve before specific changes are decided on: Does the potential for future bankruptcies warrant a significantly expanded Federal effort?

As discussed in chapter 2, the answer to this question is currently unknown. Obtaining a reliable answer will require development of a sound predictive formula tailored to the grain warehouse industry. The technology needed to do so currently exists, and research in this area is underway. To ensure against unnecessary additional Federal costs and regulations, we believe the need for any major expansion of the current Federal effort needs to be justified on the basis of reliable evidence that a significant number of bankruptcies are likely to occur in the future. This issue should, of course, be an underlying consideration in decisions on any specific alternative which is proposed.

We also identified other issues regarding certain specific alternative changes to the programs that we believe USDA should address before changes are implemented. The alternative changes and issues related to each follow.

ALTERNATIVE 1: Expand the U.S. Warehouse Act program to cover grain merchandising activities. 1/

Issues

1. Would this require a greatly expanded regulatory and examination effort?
2. If so, would the benefits, in terms of reduced potential for bankruptcies, justify the increased costs?
3. Would Federal involvement in this area cause problems in States that already regulate merchandising activities?

ALTERNATIVE 2: Increase bonding requirements to provide greater protection against financial losses when bankruptcies occur. 2/

Issues

1. Would bonding companies be willing to provide bonds sufficient to provide adequate protection?
2. How much would adequate bonds cost compared with the cost of equal amounts of insurance?
3. Would the added costs be justified considering the potential amount of farmer losses?
4. Would farmers be willing to absorb the added costs in the form of higher storage rates?

ALTERNATIVE 3: Establish a Federal insurance program to cover producer financial losses resulting from grain warehouse bankruptcies.

Issues

1. Should such a program be mandatory or voluntary?

1/The current Federal examination program only covers the storage aspect of the warehouse's business operation. The program was not established to cover the grain-merchandising area, which includes the buying and selling of grain on a daily basis. However, information on recent bankruptcies indicates that losses in the grain-merchandising area, or other outside business interests, were often a major factor leading to bankruptcy.

2/Currently, no bonding requirements exist for CCC-owned grain because the Federal Government is a self-insurer. This alternative would primarily apply to federally licensed warehouses to protect private depositors.

2. Would it be less costly than private insurance, if that is available?
3. Should such a program be financed by depositors or taxpayers? 1/
4. Is there enough interest among farmers to justify the program?
5. Would administrative costs be justified based on farmer interest and potential farmer losses?
6. Would a Federal program cause problems in States that have their own insurance programs?
7. Should a limit on coverage be set, such as a maximum payment per bankruptcy or per depositor?
8. Would such a program necessitate a greatly expanded regulatory and examination program, such as that under the Federal Deposit Insurance Corporation program for bank deposits?
9. Would the program only cover losses on depositor-owned grain or would it cover losses on grain sold to the warehouse for which payment has not been received, such as under delayed price contracts?
10. Would such a program eliminate a valuable third-party review of a warehouse's financial condition by bonding companies?

ALTERNATIVE 4: Encourage depositors to obtain private insurance on their own.

Issues

1. Is such insurance currently available?
2. If not, would private insurance companies be willing to provide such coverage in the future?
3. Would private insurance be less costly than Federal insurance or increased bonding?

1/In our report entitled "Department of Agriculture Should Have More Authority To Assess User Charges" (CED-81-49, Apr. 16, 1981), we recommended that the Congress amend the U.S. Warehouse Act to provide for user funding of periodic USDA examinations and that the amendment require recovery of all program costs.

4. Would some combination of private and Federal insurance provide the best protection at the least cost?

ALTERNATIVE 5: Amend the bankruptcy laws to give grain depositors expedited or preferential treatment in bankruptcy proceedings.

Issues

1. Would these changes apply only to depositor-owned grain or would they also apply to those who have sold their grain to the warehouse and not yet received payment?
2. If applicable to the latter case, what would justify preference to grain depositors over other general creditors?
3. Would such a change set a precedent for other groups to request similar special treatment and eventually undermine the effectiveness of the bankruptcy laws?

STATE GRAIN WAREHOUSE LICENSING REQUIREMENTS (note a)

<u>State</u>	<u>Bond required?</u>	<u>Net asset requirements prescribed?</u>	<u>Financial statement required?</u>	<u>Grain merchandising regulated?</u>
Ala.	Yes	No	No	No
Ark.	Yes	Yes	Yes	No
Calif.	Yes	No	Yes	Yes
Colo.	Yes	No	No	Yes
Ga.	Yes	No	Yes	No
Idaho (note b)	Yes	No	Yes	No
Ill. (note b)	Yes	Yes	Yes	Yes
Ind.	Yes	Yes	Yes	Yes
Iowa (note b)	Yes	Yes	Yes	Yes
Kans. (note b)	Yes	Yes	Yes	No
Ky.	Yes	No	No	No
La.	Yes	Yes	Yes	No
Mich.	Yes	Yes	Yes	Yes
Minn. (note c)	Yes	No	No	Yes
Miss.	Yes	Yes	Yes	No
Mo. (note b)	Yes	Yes	Yes	No
Mont.	Yes	No	No	Yes
Nebr. (note b)	Yes	No	Yes	No
N.C. (note d)	No	No	No	Yes
N. Dak.	Yes	No	No	No
Ohio	Yes	No	Yes	No
Okla.	No	Yes	Yes	No
Oreg. (note b)	Yes	No	No	No
S.C. (note e)	No	No	No	Yes
S. Dak.	Yes	No	No	No
Tex.	Yes	Yes	Yes	No
Wash. (note b)	Yes	Yes	Yes	No
Wis.	Yes	Yes	Yes	Yes
Wyo. (note b)	Yes	Yes	Yes	Yes

a/This information is based on warehouse laws, rules, and regulations provided to us by 29 States.

b/Under cooperative agreements with AMS, these States perform Federal examinations of nonfederally licensed CCC contract grain warehouses.

c/Under a collaborator agreement with AMS, Minn. State personnel, trained and directly supervised by AMS personnel, perform Federal examinations of nonfederally licensed CCC contract grain warehouses.

d/N.C. had a grain warehouse (storage) law until it was repealed in 1975. However, it still has a grain dealers law under which it regulates merchandising.

e/Grain warehouses in S.C. are operated by the State.

FEDERAL/STATE BONDING REQUIREMENTS FOR GRAIN WAREHOUSES

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
Federal programs:			
CCC contract warehouses	None	None	None
Federally licensed warehouses	20¢ per bushel (bu.) for 1st 1,000,000 bu. of licensed capacity	\$20,000	\$500,000
	15¢ per bu. for 2nd 1,000,000 bu. of licensed capacity		
	10¢ per bu. for licensed capacity over 2,000,000 bu.		
Cooperative/collaborator			
State programs:			
Idaho	6% of total value of the principal commodity	10,000	500,000
Ill. (note a) (Class 1)	Not less than 15¢ per bu. of warehouse capacity	<u>b</u> /10,000	None
Ill. (note a) (Class 2)	Not less than 25¢ per bu. of the space allocated for storage	<u>b</u> /10,000	None
Iowa	0-19,999 bu.: \$6,000 plus \$1,000 for each 2,000 bu. or fraction thereof in excess of 12,000 bu.	6,000	None
	20,000-49,999 bu.: \$10,000 plus \$1,000 for each 3,000 bu. or fraction thereof in excess of 20,000 bu.		
	50,000-69,999 bu.: \$20,000 plus \$1,000 for each 4,000 bu. or fraction thereof in excess of 50,000 bu.		
	70,000 or more bu.: \$25,000 plus \$1,000 for each 5,000 bu. or fraction thereof in excess of 70,000 bu.		

Note: Footnotes at end of schedule, p. 40.

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
Kans.	Capacity of the warehouse times the closing cash grain price per bu. of No. 2 hard ordinary wheat in Kansas City on the 1st Mon. in Apr. of each year, less 25¢ per bu., times 15%, up to a sum of \$200,000. Above \$200,000, add the amount obtained by multiplying said cash grain price per bu. less 25¢ times 18 times capacity in excess of that capacity used to compute the 1st \$200,000 of the amount of the bond.	\$10,000	None
Mo.	0-200,000 bu.: \$10,000 plus 25¢ per bu. of licensed capacity	None	\$1,000,000
	200,000-1,000,000 bu.: \$60,000 plus 20¢ per bu. of excess over 200,000 bu. of licensed capacity		
	1,000,000-2,000,000 bu.: \$220,000 plus 15¢ per bu. of excess over 1,000,000 bu. of licensed capacity		
	2,000,000-3,000,000 bu.: \$370,000 plus 10¢ per bu. of excess over 2,000,000 bu. of licensed capacity		
	Over 3,000,000 bu.: \$470,000 plus 5¢ per bu. of excess over 3,000,000 bu. of licensed capacity		
Nebr.: Flat warehouse (note c)	Up to \$250,000 per license: 25¢ per bu. of warehouse capacity	5,000	None
	\$250,001-\$500,000 per license: 20¢ per bu. of warehouse capacity		
	\$500,001-\$1,000,000 per license: 15¢ per bu. of warehouse capacity		

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
	Over \$1,000,000 per license: 5¢ per bu. of warehouse capacity		
Nebr.: Conventional warehouse (note d)	Up to \$250,000 per license: 20¢ per bu. of warehouse capacity	\$5,000	None
	\$250,001-\$500,000 per license: 15¢ per bu. of warehouse capacity		
	\$500,001-\$1,000,000 per license: 10¢ per bu. of warehouse capacity		
	Over \$1,000,000 per license: 5¢ per bu. of warehouse capacity		
Oreg.	Determined by the Director of Agriculture	5,000	\$200,000
Wash.	18¢ per bushel of licensed capacity or 6% of gross sales of agricultural commodities, whichever is higher	25,000	500,000
Wyo.	Fixed at a rate based on the simple average price per bu. on July 1 of the previous year and Mar. 1 of the current year at Kansas City, Mo., less freight charges. Formula established at 6% of price per bu. times warehouse capacity for upright storage and 12% of price per bu. times warehouse capacity for flat storage (note c).	15,000	None
Minn.	Sum prescribed by Minn. Department of Agriculture	20,000	e/500,000

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
Other State programs:			
Ala.	20¢ per bu.	\$ 5,000	None
Ark.	20¢ per bu. for 1st 1,000,000 bu. of licensed capacity	20,000	None
	15¢ per bu. for 2d 1,000,000 bu. of licensed capacity		
	10¢ per bu. for licensed capacity over 2,000,000 bu.		
Calif.	Form and amount satisfactory to the Director of the Calif. Department of Food and Agriculture	10,000	None
Colo.	At the discretion of the Commissioner, Colo. Department of Agriculture	2,000	\$200,000
Ga.	As prescribed by the Com- missioner, Ga. Department of Agriculture	5,000	100,000
Ind.	25¢ per bu. for 1st 100,000 bu. of licensed capacity	5,000	100,000
	15¢ per bu. for 2d 100,000 bu. of licensed capacity		
	10¢ per bu. for all licensed capacity over 200,000 bu.		
Ky.	0-49,999 bu.: \$10,000 plus \$1,000 for each 2,000 bu. or fraction thereof in in excess of 10,000 bu.	10,000	None
	50,000-109,999 bu.: \$30,000 plus \$1,000 for each 3,000 bu. or fraction thereof in excess of 50,000 bu.		

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
	110,000-349,999 bu.: \$50,000 plus \$1,000 for each 4,000 bu. or fraction thereof in excess of 110,000 bu.		
	350,000 or more bu.: \$110,000 plus \$1,000 for each 5,000 bu. or fraction thereof in excess of 350,000 bu.		
Ia.	Determined by the Director of the State Warehouse Commission based on the value of the unit of measure of the commodity times the capacity of the warehouse	\$ 5,000	None
Mich.	\$15,000 for the 1st 10,000 bu. of storage capacity plus \$5,000 for each additional 10,000 bu. capacity or fraction thereof	15,000	\$400,000
Miss.	20¢ per bu. for 1st 1,000,000 bu. of licensed capacity 15¢ per bu. for 2d 1,000,000 bu. of licensed capacity 10¢ per bu. for licensed capacity over 2,000,000 bu.	5,000	500,000
Mont.	0-50,000 bu. capacity: \$15,000 50,001-75,000 bu. capacity: \$20,000 75,001-100,000 bu. capacity: \$25,000 100,001-125,000 bu. capacity: \$30,000	15,000	None

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
	Bond requirements increase in \$5,000 increments for each additional 25,000 bu. capacity up to 500,000 bu.		
	Elevators with capacities in excess of 500,000 bu. are required to furnish an additional bond of \$5,000 for each additional 50,000 bu. or fraction thereof		
N.C. (note f)	None	None	None
N. Dak.	0-500,000 bu. capacity: \$50,000 plus \$25,000 for each 25,000 bu. or fraction thereof in excess of 50,000 bu.	\$ 5,000	None
	Over 500,000 bu.: \$500,000 plus \$5,000 for each 25,000 bu. or fraction thereof in excess of 500,000 bu.		
Ohio	File such bond or bonds as the Director, Ohio Department of Agriculture, may require.	None	None
Okla.	Has a grain storage indemnity fund	None	None
S.C.	State-operated warehouse system	N/A	N/A
S. Dak.	\$5,000 for 1st 10,000 bu. of warehouse capacity plus \$3,000 for each additional 10,000 bu. capacity or fraction thereof	1,000	Value of property in store
Tex.	20¢ per bu. on the 1st 1,000,000 bu. of storage capacity	15,000	\$500,000
	15¢ per bu. on the 2d 1,000,000 bu. of storage capacity		
	10¢ per bu. on all capacity over 2,000,000 bu.		

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
Wis.	40% or more of the current market value of the grains stored in the warehouse	None	None

a/Class 1 warehouses issue both negotiable and nonnegotiable receipts; class 2 warehouses issue only nonnegotiable receipts.

b/Bonding and net assets combined must equal 35¢ per bu. on the 1st 1,000,000 bu. and 30¢ per bu. on capacity over 1,000,000 bu.

c/A flat warehouse is a square or rectangular facility which may or may not have equipment to turn and condition grain.

d/A conventional warehouse is normally a round, upright facility with permanent and complete equipment for turning and conditioning grain.

e/Can be increased to \$1,000,000 or more if conditions warrant.

f/N.C. repealed its grain warehouse (storage) law in 1975. However, it still has a grain dealers law under which it regulates merchandising.

FEDERAL/STATE NET ASSET REQUIREMENTS FOR GRAIN WAREHOUSES

<u>Source of requirement</u>	<u>Requirement</u>	<u>Minimum</u>	<u>Maximum</u>
Federal programs:			
CCC contract warehouses	10¢ per bushel (bu.) of storage capacity	\$25,000	\$250,000
Federally licensed	20¢ per bu. of storage capacity	10,000	None
Cooperative/ collaborator			
State programs:			
Idaho	None	None	None
Ill. (note a)	35¢ per bu. on 1st 1,000,000 bu; 30¢ per bu. on capacity over 1,000,000 bu.	20,000	None
Iowa	\$25,000	25,000	None
Kans.	10¢ per bu. of storage capacity	None	100,000
Mo.	15¢ per bu. of storage capacity	None	150,000
Nebr.	None	None	None
Oreg.	None	None	None
Wash.	15¢ per bu. of licensed space	10,000	None
Wyo.	20¢ per bu. of capacity	None	None
Minn.	None	None	None
Other State programs:			
Ala.	None	None	None
Ark.	10¢ per bu. of licensed space	10,000	None
Calif.	None	None	None
Colo.	None	None	None
Ga.	None	None	None
Ind.	10¢ per bu. of storage capacity	10,000	None
Ky.	None	None	None
La.	5% of the value of the unit of measurement times capacity	10,000	None
Mich.	\$20,000	20,000	None
Miss.	10¢ per bu. of licensed capacity	10,000	None
Mont.	None	None	None
N.C.	None	None	None
N. Dak.	None	None	None
Ohio	None	None	None
Okla.	\$10,000	10,000	None
S.C. (note b)	N/A	N/A	N/A
S. Dak.	None	None	None
Tex.	20¢ per bu. of storage capacity	None	None
Wis.	10¢ per bu. of storage capacity	25,000	None

a/Surety bond and net assets combined must meet the requirement shown.

b/Warehouses are State operated.

FEDERAL/STATE CONTROLS OVER NEGOTIABLE WAREHOUSE RECEIPTS

<u>Program</u>	<u>Has printed & distributes</u>	<u>Monitors printing & distribution</u>	<u>Approves form</u>	<u>Pre- scribes contents</u>	<u>No guidance (note a)</u>
Federal programs:					
CCC contract warehouses			X		
Federally licensed warehouses	X				
Cooperative/collaborator					
State programs:					
Idaho	X				
Ill.		X			
Iowa				X	
Kans.	X				
Mo.	X				
Nebr.	X				
Oreg.	X				
Wash.	X				
Wyo.	X				
Minn.				X	
Other State programs:					
Ala.		X			
Ark.		X			
Calif.					X
Colo.					X
Ga.		X			
Ind.	X				
Ky.				X	
La.				X	
Mich.			X		
Miss.	X				
Mont.			X		
N.C.					X
N. Dak.				X	
Ohio	X				
Okla.	X				
S.C.	X				
S. Dak.				X	
Tex.	X			X	
Wis.				X	
Total for the 29 States we reviewed	<u>13</u>	<u>4</u>	<u>2</u>	<u>7</u>	<u>3</u>

a/No guidance in laws and regulations the States provided to us. However, the States' Uniform Commercial Code may prescribe the contents of warehouse receipts at a minimum.

(022620)



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