

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK

The meeting was called to order by Rep. Bill Fuller at  
Chairperson

9:00 a.m. ~~on~~ on March 22, 1983 in room 423-S of the Capitol.

All members were present except:

Committee staff present:

Bruce Hurd, Revisor of Statutes' Office  
Raney Gilliland, Legislative Research Department  
Kathleen Moss, Secretary to the committee

Conferees appearing before the committee:

John Blythe, Kansas Farm Bureau  
Becky Crenshaw, Committee of Kansas Farm Organizations  
Gerald Riley, Kansas Wheat Growers Association  
Dale Sprague, Public Accountants Association of Kansas, McPherson  
Ivan Wyatt, Kansas Farmers Union  
Rep. Jim Patterson

Chairman Fuller pointed out to the committee that a set of Minutes was distributed for consideration tomorrow, and asked approval of Minutes of the March 17, 1983 meeting. Rep. Flottman moved that the Minutes be adopted as corrected. Rep. Long seconded the motion and motion passed.

Chairman Fuller advised the committee that today is the first day of public hearings on Senate bills concerning warehouses. There are six conferees for today and there will be six or seven tomorrow. The conferees were asked to appear on one or any of the five bills that are in this committee. There will be no division as to proponents and opponents as is traditionally done.

SB 1 - An act concerning grain warehouses; relating to requirements for licensure of certain warehouses; amending K.S.A. 34-229 and K.S.A. 1982 Supp. 34-228 and 34-230 and repealing the existing sections.

SB 2 - An act concerning public warehousemen; providing for annual statements to depositors of grain stored in public warehouses.

SB 3 - An act relating to public grain warehouses; concerning the taking of control of certain warehouses by the director of the state grain inspection department and the appointment of a temporary receiver and a receiver in certain cases; amending K.S.A. 34-2,104 and repealing the existing section.

SB 5 - An act concerning certain crimes committed by grain warehousemen; relating to prosecution by the attorney general; amending K.S.A. 1982 Supp. 34-111 and repealing the existing section.

SB 6 - An act relating to the grain inspection department; providing for appointment of a director by the governor subject to confirmation by the senate; amending K.S.A. 1982 Supp. 75-1701 and repealing the existing section.

John Blythe appeared for the Kansas Farm Bureau supporting SB's 1, 2, 3, 5 and 6. He suggested that on SB 6, Line 136, the word "six" be stricken and replaced with the word, "three". He also said they do not have a policy on SB 6 but have no objections to it. His prepared testimony is Attachment No. 1.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK,  
room 423-S, Statehouse, at 9:00 a.m./~~p.m.~~ on March 22, 1983

Becky Crenshaw appeared for the Committee of Kansas Farm Organizations. It is a coalition of 20 Kansas farm organizations and they require unanimous support before they endorse a bill. She urged favorable consideration of SB's 1, 2, 3, 5 and 6.

Gerald Riley appeared for the Kansas Wheat Growers Association supporting the package of bills. His suggested amendments are in his statement, Attachment No. 2.

Dale Sprague, McPherson, appeared for the Public Accountants Association of Kansas speaking to SB 1. Mr. Sprague submitted a prepared statement, Attachment No. 3. Part of the presentation was given by Glen Gillmore regarding suggested amendments.

Ivan Wyatt appeared for the Kansas Farmers Union. See Attachment No. 4. He supported the bills and suggested additional protection for producers.

Rep. Jim Patterson appeared at the request of some of his constituents. Their concern was with SB 1, Line 57 involving the need for an audit review rather than a compilation.

There were several questions from the committee concerning clarification on the difference between a compilation, review and certified audit. There was discussion on the Grain Advisory Board.

Chairman Fuller informed the committee that the hearings would continue tomorrow and adjourned the meeting at 9:57 a.m.

The next meeting will be on Wednesday, March 23, 1983 at 9:00 a.m. in Room 423-S.

GUEST REGISTER

DATE March 22, 1983

HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE AND LIVESTOCK

NAME	ORGANIZATION	ADDRESS
John Blythe	KFB	Manhattan
Sam Reda	KSGID	Topeka
Gary M. Bothwell	KSGID	Topeka
Gerald Riley	K.A.W.G.	Righton
MARVIN R. WEBB	KSGID	Topeka
Ivan W. Wyatt	Ks Farmers Union	McPherson
Bill Weber	KLA	Topeka
Becky Crenshaw	OKFO	"
Tom R. TUNNELL	KANSAS GRAIN & FEED ASSN	Hutchinson
John Probst	K.F.F.A	Marion
Mike Bear	KLA	Topeka
Hal Johnson	KPAC	Topeka
Deanna Sullivan		Miltonvale
Betty Conway	Shawnee Co Farm Bureau	Seaside
Nancy Kantola	Kansas Co-op Council	Topeka
Jan Vacek	Ks. Society of CPAs	Topeka
TC Anderson	KSCPA	Topeka
Bill M. Squire	Pub. Acct. Assn. Kansas	Topeka
Gen Palmer	Pub Accts Assn of Ks	Manhattan

Statement to the  
House Committee on Agriculture and Livestock

RE: Senate Bills 1, 2, 3, 5 and 6  
Grain Warehousing  
March 22, 1983  
Topeka, Kansas

by  
John K. Blythe, Assistant Director  
Public Affairs Division  
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to appear before you today to express our views concerning grain warehousing and bankruptcy.

In addition to this statement, I have attached some of the information that we presented to the Interim Committee and I will review parts of that material for you.

First, I want to present to the Committee the policy statement that our Organization adopted at their Annual Meeting, December 7, 1982, regarding grain warehousing.

*Agricultural Commodity Storage  
and Sales Security*

*We urge farmers to be informed as to the payment risk involved in contracting for future sales of agricultural commodities already delivered to an elevator or feedyard.*

*We ask that if a check has been issued for payment of grain within 14 days prior to an elevator filing for bankruptcy or receivership, and if the check has not cleared the bank, the party to whom the check was issued be considered a first line and priority creditor in any bankruptcy settlement.*

*We believe all commercial elevators and grain warehousing facilities in Kansas should be licensed and bonded by the state, and/or federal government, and inspected by the Warehouse Division of the State Grain Inspection Department a minimum of twice each year. Any discrepancy in the grain account should be reported immediately to the bonding company holding the bond of the elevator or grain warehouse. Legislation should be enacted so that, in the event of discrepancy or insolvency, there will be appropriate maintenance of grain in storage. We firmly believe that all elevator insolvencies under state jurisdiction should be completely settled in a maximum of 120 days.*

*We ask that the statute (K.S.A. 34-229) which establishes the amount and conditions of warehouseman's bond be amended so as to increase the percentages and monetary factors presently used in the formula in order to significantly increase the dollar amount of bond required.*

Grain Warehousing Statement

March 22, 1983

Page 2

*We believe all licensed grain storage facility operators should be required to prove financial responsibility, should post and prominently display the bond for the facility, and should be audited annually for the protection of those who store grain in the facility.*

*Our statutes should be amended to place full responsibility for criminal prosecution of a warehouseman with the Attorney General. We further believe that the penalty language for an unlawful act or mishandling customer grain in storage should be evaluated and make all such criminal acts a Class D felony. Any person or persons so convicted of a Class D felony should be prohibited from obtaining an elevator license for a period of ten years following his or her conviction.*

*We recommend a legislative study of K.S.A. 84-2-403 and K.S.A. 84-7-205 (Kansas Uniform Commercial Code) as they apply to Kansas Public Grain Warehouses and their power to transfer grain entrusted to their care.*

*We believe that in an effort to make the warehouseman responsible to his customer it should be a requirement that the elevator manager send to all customers an annual statement of the amount and kind of grain in storage and name the location of the grain in storage.*

Most of the concerns of our Organization as stated in our Policy Statement are addressed by the five bills that you are considering and the one bill assigned to the House Judiciary Committee. However, there is one major exception. If we look again at the second paragraph of our Policy Statement, we refer to the outstanding checks in payment for grain that were not honored because of insufficient funds in the elevator bank account or because they had not yet cleared the bank when the insolvency was declared. At this late date, it might be too late to address this concern, but we would ask that members of this Committee study this item and address the issue next session. The problem, as we see it, is this: The person with the outstanding check is considered a common creditor and is not entitled to share in the settlement of the elevator grain and bond coverage.

I want to review, briefly, with you the elevator insolvencies that have occurred in Kansas since October of 1980. During this two and one-half year span, Kansas has experienced six insolvencies. We had the Tam Ann Feeds Company, in Council Grove on October 15, 1980, the Collins Grain Company at Kackley on November 6, 1980, followed by the Ames Elevator in Ames during 1981, then in March, 1982, the

Plains Grain Inc. Warehouse at Plains and the Pittman Feed Company at Hayne, both owned by James Pittman, were ordered closed by the Kansas Grain Inspection Department. The elevator at Thayer experienced financial problems in January, 1983 and just this month we find the Moran-La Harpe Co-op Elevator has financial problems.

All six of these elevator insolvencies represent somewhat different situations of failures. The Tam Ann Feeds Company, Council Grove, was the only one that went the route of Federal bankruptcy, four chose the route of receivership, which is under the jurisdiction of state law. The Moran-La Harpe financial problems are so recent that their solution has not yet been fully determined.

I would like to briefly discuss with you some of the aspects of the individual elevator insolvencies.

Tam Ann Feeds of Council Grove

The Tam Ann Feeds Company filed for bankruptcy on October 15, 1980, under the Federal Bankruptcy Law, and on November 21, the Kansas Grain Inspection Department certified that the elevator had 3755.35 bushels of grain (wheat=3344.65 bu; corn=369.45 bu; oats=41.25 bu).

Open storage grain of customers totaled 3,220 bushels, leaving 533.35 bushels of grain owned by the Tam Ann Feeds Company.

The elevator had only seven grain accounts.

In addition, the elevator was bonded in the amount of \$34,600. Not only was there sufficient grain in the elevator to cover the liability to the farmer, but the bond was equal to \$10.75 for each bushel of customer's grain.

Jerold Berger, a Topeka attorney, was appointed as the trustee in the bankruptcy proceedings.

In April, 1981, it was discovered that the grain had gone out of condition and was "sample" grade grain. Buyers for the grain were found and the grain was sold.

We believe that the trustee or federal bankruptcy Judge should be questioned as to who is responsible for the grain in the elevator and why the grain went out of condition.

In December, 1980, the farmers might have sold their wheat for \$4.30 per bushel; but they could not because it was tied up in bankruptcy proceedings that had been filed for more than 60 days. The farmers had to borrow money instead of selling wheat and their money

cost 18% interest, which, for a year will amount to 77½¢ per bushel of wheat.

On April 12, 1983 -- 18 months after the bankruptcy was filed and 12 months after the grain was sold -- Mr. Berger sent checks to the seven persons who had grain stored in the Tam Ann Feeds elevator. Those checks amounted to \$2.5242 for each bushel stored, irregardless of whether the grain was wheat or corn. There were no allowances for storage charges or indication of length of storage. This, in my opinion, was a very "sloppy" settlement of the bankruptcy.

A copy of Mr. Berger's settlement statement and the Kansas Grain Inspection Department's reports are attached.

Consider that the wheat might have been sold for \$4.30 per bushel, but the final price was \$2.52 or a loss of \$1.78 per bushel, then add to that the interest of \$1.03 per bushel and we have a net loss of \$2.81 per bushel, most of which could have been avoided if prompt action had been taken in this bankruptcy.

The farmers received only \$2.52 for each bushel of wheat and we believe that there should be some responsibility for the trustee or the bonding company to make up the difference between the settlement price and the market price of wheat. The bonding company to date has not made any payments in the Tam Ann elevator bankruptcy.

Collins Grain Company of Kackley, Kansas

The Collins Grain Company at Kackley presents an entirely different situation from the Tam Ann feeds elevator, for the Collins elevator was short nearly 100,000 bushels of grain. The Kackley elevator asked to be placed in a receivership on November 6, 1980. At that time, there was on track: three cars of corn totalling 8,435 bushels, one care of milo with 3,546 bushels, and one car of soybeans with 3,350 bushels. The five cars of grain were unloaded into the elevator, but because three cars (one car corn of 3,589 bushels, one car milo of 3,546 bushels, and one car of soybeans of 3,350 bushels) were sold and the draft received, they were reloaded and shipped to the consignee.

In summary of the Kackley elevator situation, it appears that the following figures are correct:



	<u>Elevator Open Storage and Warehouse Liability</u>	<u>Grain Inspection Measurement (less shipped grain)</u>	<u>Grain Shortage</u>
Wheat	48,013 bushels	1,360 bushels	46,653 bushels
Corn	80,940 bushels	44,424 bushels	36,516 bushels
Milo	17,240 bushels	7,811 bushels	9,429 bushels
Soybeans	7,540 bushels	4,701 bushels	2,839 bushels
		TOTAL GRAIN SHORTAGE:	95,437 bushels

You can observe from the above figures, the shortage of grain (95,437 bushels) in the Kackley elevator. As we view the Kackley situation, we question the length of time it took to settle the bankruptcy and make distribution of the money from the sale of the grain that remained in the elevator plus the bond money available -- and the more serious question is . . . What happened to the grain that was short?

I do want to emphasize that the shortage of grain was brought to the attention of the County Attorney and the Attorney General.

The attached news item indicates the charges brought against the former owner of the Kackley Grain Elevator and the sentence he received.

A complete copy of the indictment was obtained from the office of the U.S. District Attorney, and is attached. An attorney in the U.S. District Attorney's office, upon reviewing the file of the case, said that Mr. Collins pleaded guilty to counts I, V and X.

We estimated the shortage of grain to be approximately \$320,000, with the elevator bond in the neighborhood of \$113,000.

The insolvency of the Ames elevator resulted in considerable inconveniences to its many customers, but the shortage of grain was sufficiently covered by its bond.

The James Pittman elevators in Plains and Hayne were discussed at length by the Interim Committee and the shortage was so large and complex that a complete settlement has not been completed. The shortage in these two elevators was approximately 590,000 bushels of grain, which exceeded the elevator capacity with an estimated value of about \$1.6 million dollars.

#### 1983 Failures

There have been two elevator insolvencies reported in 1983. The elevator at Thayer, Kansas was put into receivership in January, 1983 and I believe there was some shortage of grain, but similar to the Ames elevator, the bond should cover the grain deficiency.



The most recent elevator company to experience financial difficulties is the Co-op elevators with locations in Moran and La Harpe. I do not have sufficient information regarding this elevator company to make a report on the grain deficiency or their financial problems.

S.B. 1 speaks to the improvement in audit and financial statement requirements for state licensure, which we support.

S.B. 2 requires the annual statement to depositors of grain stored in public warehouses and we support this bill.

S.B. 3 provides for immediate and more positive control of an insolvent elevator by the Grain Inspection Department. We do have an amendment that we wish to offer for S.B. 3. On page 4, line 36, we would ask that the word six (6) be stricken and be replaced with the word three (3). I believe that the information I have given the Committee regarding the time used to settle these insolvencies needs to be shortened. Our Policy Statement asks for a limit of 120 days. Most of the proposed legislation before the U.S. Congress puts a limit of 120 days for the settlement of elevator bankruptcies.

S.B. 5 would require the Attorney General to prosecute all crimes committed by a grain warehouseman and we support this requirement. I would refer you to some of the attached material to support this bill.

S.B. 6 changes the procedure for the appointment of the Director of the Grain Inspection Department, we have no objection to this change.

I would now like to review very briefly the attached material, which I believe supports the proposed legislation.

Thank you for the opportunity to present our policy positions to this Committee, and I will attempt to answer your questions.

# OPEN STORAGE REPORT TO EXAMINER

KSG-322

Tam Ann Foods  
Company

Council Grove, KS  
Location

LIST ALL

Customer Storage Covered by Trust Receipts or Scale Tickets Only—and Loading Orders to be Shipped

NOTE: Upon receipt of a loading order (CCC or others) accompanied by the Warehouse Receipts, the receipts must be cancelled and the grain reported as open storage until shipment is completed. Shipments on loading orders must be made as soon as cars can be obtained.

Customer's Name	Wheat, Bu.	CORN, Bu.	OATS, Bu.	, Bu.
Robert Bacon	50 -			
Keith Bacon	40 -			
Max Davis	416.73			
Max Davis	39.64			
Sobke	39.61			
Robert Taylor Rocksides Ranch		369.45		
No deferred pricing contracts <del>MS</del>				
Total Open Storage Acct.	585.95	369.45	-0-	
Less Open Stg. to Term.	-0-	-0-	-0-	
Open Storage in Elev.	585.95	369.45	-0-	
Total Outstanding W. H. R.	-0-	-0-	-0-	
Stg. Liability in Elev.	585.95	369.45	-0-	
Company Owned	2759.70	-0-	71.25	
Total Stock in Elev.	3344.65	369.45	71.25	Total Bu. 3785.35
Use Other Side for Additional Listings				

The foregoing statement of customer storage upon which no warehouse receipts have been issued is true and correct to the best of my knowledge and belief, and includes the unshipped portion of loading orders that have been received and the warehouse receipts covering same have been cancelled.

Dated November 21 1980

Signed Herbert G. Stone

By Tam Ann Foods  
Manager, Owner or Executive Officer

Title General Manager

STATE OF KANSAS,  
COUNTY OF Missouri } ss.

On this 21<sup>st</sup> day of November, 1980, personally appeared before me, a notary public in and for the State and County aforesaid Herbert G. Stone, who being duly sworn says that he is the person who signed the foregoing statement in the name of the Licensed Warehouse; that he is duly authorized to do so, and that the statements contained in the said statement are true to the best of his knowledge, information and belief.

Herbert G. Stone  
Warehouse Examiner or Notary Public

My commission expires \_\_\_\_\_ 19\_\_\_\_



Jerold E. Berger  
HUMPAGE, BERGER AND HOFFMAN  
314 West Seventh Street  
Topeka, Kansas 66603  
(913) 235-3477

April 12, 1982

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF KANSAS

IN RE: )  
 )  
GLEN LAVON SKEEN, d/b/a )  
Tam Ann Feed, ) Case No. 80-40329  
 )  
Debtor. )  
\_\_\_\_\_ )

APPLICATION FOR  
APPROVAL TO PAY GRAIN OWNERS

COMES NOW the trustee, and makes his Application to the Court for an Order permitting him to make payments to certain owners of grain which was stored in the debtor's elevator. The trustee shows the Court the following:

1. That he sold the grain that was in the elevator at the time of filing the bankruptcy. That the total receipt from the sale was \$8,618.21.

2. That in order to sell the grain, it cost the trustee \$390.00 for labor, and \$100.00 for trucks, for a total of \$490.00, thereby leaving a net balance of \$8,128.21.

3. That there were several people who had grain stored in the elevator at the time of filing of the bankruptcy. That in order to determine a fair distribution, the trustee totaled the amount of bushels the individuals had stored and divided that by \$8,128.00 which was the amount received. This gave the trustee a figure of 2.5242 per bushel. The trustee then multiplied this by the number of bushels each individual had stored in said elevator. Based on the above, the trustee is requesting permission to pay the following individuals the following amounts of money:

11-21-70

Grain Inspection Report

Wheat = 3344.65 bu  
Corn = 349.45 bu  
Oats = 41.25 bu

Sal 3755.35 bu.

Pen forage 3226.00 bu.

Surplus 535.35 bu.

A.	Sager Wilson	bushels 1884. wheat	\$4757.49
D	Dale Suplee	380.6 PP	959.19
(Suplee does not appear on KGI report)			
C.	Robert Taylor	369.45 bu corn	932.56
	(less \$200.75 owed for molasses)		<u>-200.75</u>
	NET:		731.81
D.	Max Davis	456.34 wheat	\$1151.86
E.	Robert Bacon	50 wheat	126.20
F.	Keith Bacon	40 wheat	100.96
G.	Sobke	39.61 wheat	99.97
		<u>3220.0</u>	<u>8128.23</u>

WHEREFORE, the trustee prays the Court for an Order

permitting him to pay out the above sums of money.

$\frac{8128.23}{3226.0 \text{ bu}} = 2.5242 \text{ per bu.}$

Jerold E. Berger, Trustee

CERTIFICATE OF SERVICE

I, Jerold E. Berger, hereby certify that on the 12th day of April, 1982, a copy of the above and foregoing Application was deposited in the United States mail, first class, postage prepaid and addressed to the following individuals:

Sager Wilson  
Route 1  
Council Grove, KS 66846

Keith Bacon  
Route 1  
Council Grove, KS 66846

Dale Suplee  
c/o Charles Rayl  
P. O. Box 640  
Cottonwood Falls, KS 66845

Sobke  
Route 1  
Council Grove, KS 66846

Robert Taylor  
900 S. Neosho Street  
P. O. Box 135  
Council Grove, KS 66846

Max Davis  
Route 3  
Council Grove, KS 66846

Robert Bacon  
Route 1  
Council Grove, KS 66846

Jerold E. Berger, Trustee

# Former elevator owner indicted

By JIM SUBER  
Capital-Journal rural development writer

The former owner of a Kackley grain elevator was indicted Tuesday in Topeka by a federal grand jury for 10 counts of federal criminal violations involving his business before it went into state receivership in November 1980.

Mark W. Collins was charged with four counts of making false statements to Farmway Credit Union of Beloit, to obtain loans in amounts up to \$60,000, five counts of giving false warehouse invoices to the U.S. Department of Agriculture's Commodity Credit Corp. to get warehouse storage and service payments and one count of selling CCC-pledged corn to a grain company in Salina.

Collins was proprietor of Collins Grain Co. Inc. in Kackley, a small town in southwest Republic County in north-central Kansas.

U.S. Attorney Jim Marquez said the

indictment ended a 16-month investigation that originated with the Kansas State Grain Inspection Department.

Bradley Smoot, assistant state attorney general, said the state also had been investigating the elevator since it went into receivership, but that the federal agencies were first to bring charges because the USDA started the investigation. The state turned its information over to Marquez, Smoot said, and it's unlikely the state will file further charges unless it can find some different from the federal ones.

If found guilty, Collins could be fined up to \$5,000 and jailed for up to two years on each of the first four counts and fined \$10,000 and sentenced up to five years on each of the remaining six counts.

Some farm groups had complained loudly this winter about the apparent failure of the attorney general's office to investigate circumstances before the elevator's failure.

A proposal now in the legislature,

supported in part by persons specifically dissatisfied with the Kackley elevator case, would ensure that the Grain Inspection Dept. would inform the attorney general of possible wrongdoing at elevators.

Each had been accused in legislative hearings of not pursuing possible illegalities leading up to the failure of the elevator.

The creditors lost much money in the failure, with the receiver only ending the case earlier this winter when he filed final distribution papers in Republic County.

According to a copy of the motion filed in Republic County District Court to allow distribution of assets, wheat growers received \$1.61 a bushel, soybeans growers received \$5.48, milo growers received \$1.97 and corn growers received \$2.40.

On the loans involving Farmway, the jury basically found that Collins had falsely told the credit union he had grain on hand to use as collateral. The four loans were for \$8,000, \$35,000, \$7,500 and \$60,000. Farmway got back \$38,094.11 on the \$60,000 loan.

One farming partnership from near Courtland had some 12,000 bushels of various grains involved in the failure.

Others paid from the various funds included: Internal Revenue Service, \$8,271; Kansas Department of Revenue, \$1,023; the receiver, Eugene Waring, \$18,500; his attorney, Robert Meyer, \$18,500; an auditor, Rex Woods, \$3,800; the Kansas Grain Inspection Dept., for inspecting grain after appointment of the receiver, \$2,333, and the Santa Fe Railway, demurrage charges, \$1,800.

*Collins was sentenced to 6 mo. in a half-way house and two years probation*

*Max Penalty \$50,000 fine + 38 years*

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF KANSAS  
(TOPEKA DOCKET)

UNITED STATES OF AMERICA,	)	
Plaintiff,	)	
	)	
vs.	)	No.
	)	18 USC §1014
MARK W. COLLINS	)	15 USC §714m(a)
Defendant.	)	15 USC §714m(c)
	)	

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I N D I C T M E N T

The Grand Jury Charges:

COUNT I

On or about the 18th day of March, 1980, at Beloit, in the District of Kansas,

MARK W. COLLINS

did unlawfully, knowingly, willfully, intentionally and feloniously make a false statement upon an application for a loan for the purpose of influencing in any way the action of the Farmway Credit Union, a state chartered credit union insured by the National Credit Union Administration, in that MARK W. COLLINS pledged warehouse receipts for 3500 bushels of corn stored at Collins Grain Company's elevator as collateral for a loan of \$8,000.00, whereas, as MARK W. COLLINS then and there knew, at that time Collins Grain Company was approximately 11,925.23 bushels of corn short as of March 18, 1980, in violation of Title 18, United States Code, Section 1014.

COUNT II

On or about the 23rd day of May, 1980, at Beloit, in the District of Kansas,

MARK W. COLLINS

did unlawfully, knowingly, willfully, intentionally and feloniously make a false statement upon an application for a loan for the purpose of influencing in any way the action of the Farmway Credit Union, a state chartered credit union insured by the National Credit Union Administration, in that MARK W. COLLINS



pledged warehouse receipts for 14,000 bushels of corn stored at Collins Grain Company's elevator as collateral for a loan of \$35,000.00, whereas, as MARK W. COLLINS then and there knew, at that time Collins Grain company was approximately 4,903.38 bushels of corn short as of May 23, 1980, in violation of Title 18, United States Code, Section 1014.

COUNT III

On or about the 4th day of September, 1980, at Beloit, in the District of Kansas,

MARK W. COLLINS

did unlawfully, knowingly, willfully, intentionally and feloniously make a false statement upon an application for a loan for the purpose of influencing in any way the action of the Farmway Credit Union, a state chartered credit union insured by the National Credit Union Administration, in that MARK W. COLLINS pledged warehouse receipts for 2400 bushels of corn stored at Collins Grain Company's elevator as collateral for a loan of \$7,500.00, whereas, as MARK W. COLLINS then and there knew, at that time Collins Grain Company owned approximately 1,723.72 bushels of corn in its elevator as of September 4, 1980, in violation of Title 18, United States Code, Section 1014.

COUNT IV

On or about the 7th day of October, 1980, at Beloit, in the District of Kansas,

MARK W. COLLINS

did unlawfully, knowingly, willfully, intentionally and feloniously make a false statement upon an application for a loan for the purpose of influencing in any way the action of the Farmway Credit Union, a state chartered credit union insured by the National Credit Union Administration, in that MARK W. COLLINS pledged warehouse receipts for 16,000 bushels of corn, 60,000 pounds of milo, and 1,060 bushels of soybeans stored at Collins Grain Company's elevator as collateral for a loan of \$60,000.00, whereas, as MARK W. COLLINS then and there knew, at that time

Collins Grain Company was short approximately 25,706.27 bushels of corn, and 44,890 pounds of milo in its elevator as of October 7, 1980, in violation of Title 18, United States Code, Section 1014.

COUNT V

On or about 9th day of April, 1980, at Shawnee Mission, in the District of Kansas, and within the jurisdiction of this Court,

MARK W. COLLINS

did unlawfully, intentionally, feloniously and willfully make a material statement, knowing it to be false, for the purpose of influencing the action of Commodity Credit Corporation and for the purpose of obtaining for himself and others, money, property, and other things of value from Commodity Credit Corporation. That is to say, that on or about the date stated and in the District aforesaid, MARK W. COLLINS executed and caused to be filed with the Kansas City Agricultural Stabilization and Conservation Service Commodity Office at Shawnee Mission, Kansas, for the purpose of obtaining a periodic payment to Collins Grain Company, Inc., Kackley, Kansas, of warehouse charges by Commodity Credit Corporation for the period ending March 31, 1980, a Form entitled "Invoice for Warehouse Charges," reciting in substance as follows:

"I hereby certify that this invoice has been verified in detail by me or by someone under my direction, which verification has included the careful examination of complete records of inventories and storage obligations, and that all services for which payment of charges is claimed have been performed in full conformity with the provisions of my storage warehousing agreement with the Commodity Credit Corporation."

This statement was material in obtaining payment of warehouse charges by Commodity Credit Corporation. The statements contained in said certification, as MARK W. COLLINS then and there well knew, were false for the reason that the services during the period January 1, 1980, through March 31, 1980, for which payment was claimed, had not been performed in conformity with the provisions of COLLINS GRAIN COMPANY'S storage warehousing

agreement with Commodity Credit Corporation in that:

1. COLLINS GRAIN COMPANY did not at all times maintain in its elevator at Kackley, Kansas a stock of grain (wheat) equivalent in quantity, class and grade, and fairly representative of the quality which he was obligated to deliver to the holders of warehouse receipts and other documents representing the grain.

2. COLLINS GRAIN COMPANY had sold, shipped, or otherwise disposed of wheat owned by Commodity Credit Corporation.

All in violation of Title 15, United States Code, Section 714m(a).

COUNT VI

On or about 9th day of July, 1980, at Shawnee Mission, in the District of Kansas, and within the jurisdiction of this Court,

MARK W. COLLINS

did unlawfully, intentionally, feloniously and willfully make a material statement, knowing it to be false, for the purpose of influencing the action of Commodity Credit Corporation and for the purpose of obtaining for himself and others, money, property, and other things of value from Commodity Credit Corporation. That is to say, that on or about the date stated and in the District aforesaid, MARK W. COLLINS executed and caused to be filed with the Kansas City Agricultural Stabilization and Conservation Service Commodity Office at Shawnee Mission, Kansas, for the purpose of obtaining a periodic payment to Collins Grain Company, Inc., Kackley, Kansas, of warehouse charges by Commodity Credit Corporation for the period ending June 30, 1980, a Form entitled "Invoice for Warehouse Charges," reciting in substance as follows:

"I hereby certify that this invoice has been verified in detail by me or by someone under my direction, which verification has included the careful examination of complete records of inventories and storage obligations, and that all services for which payment of charges is claimed have been performed in full conformity with the provisions of my storage warehousing agreement with the Commodity Credit Corporation."

This statement was material in obtaining payment of warehouse

charges by Commodity Credit Corporation. The statements contained in said certification, as MARK W. COLLINS then and there well knew, were false for the reason that the services during the period April 1, 1980, through June 30, 1980, for which payment was claimed, had not been performed in conformity with the provisions of COLLINS GRAIN COMPANY'S storage warehousing agreement with Commodity Credit Corporation in that:

1. COLLINS GRAIN COMPANY did not at all times maintain in its elevator at Kackley, Kansas a stock of grain (wheat) equivalent in quantity, class and grade, and fairly representative of the quality which he was obligated to deliver to the holders of warehouse receipts and other documents representing the grain.

2. COLLINS GRAIN COMPANY had sold, shipped, or otherwise disposed of wheat owned by Commodity Credit Corporation.

All in violation of Title 15, United States Code, Section 714m(a).

#### COUNT VII

On or about 9th day of April, 1980, at Shawnee Mission, in the District of Kansas, and within the jurisdiction of this Court,

MARK W. COLLINS

did unlawfully, intentionally, feloniously and willfully make a material statement, knowing it to be false, for the purpose of influencing the action of Commodity Credit Corporation and for the purpose of obtaining for himself and others, money, property, and other things of value from Commodity Credit Corporation. That is to say, that on or about the date stated and in the District aforesaid, MARK W. COLLINS executed and caused to be filed with the Kansas City Agricultural Stabilization and Conservation Service Commodity Office at Shawnee Mission, Kansas, for the purpose of obtaining a periodic payment to Collins Grain Company, Inc., Kackley, Kansas, of warehouse charges by Commodity Credit Corporation for the period ending March 31, 1980, a Form entitled "Invoice for Warehouse Charges," reciting in substance

as follows:

"I hereby certify that this invoice has been verified in detail by me or by someone under my direction, which verification has included the careful examination of complete records of inventories and storage obligations, and that all services for which payment of charges is claimed have been performed in full conformity with the provisions of my storage warehousing agreement with the Commodity Credit Corporation."

This statement was material in obtaining payment of warehouse charges by Commodity Credit Corporation. The statements contained in said certification, as MARK W. COLLINS then and there well knew, were false for the reason that the services during the period January 1, 1980, through March 31, 1980, for which payment was claimed, had not been performed in conformity with the provisions of COLLINS GRAIN COMPANY'S storage warehousing agreement with Commodity Credit Corporation in that:

1. COLLINS GRAIN COMPANY did not at all times maintain in its elevator at Kackley, Kansas a stock of grain (corn) equivalent in quantity, class and grade, and fairly representative of the quality which he was obligated to deliver to the holders of warehouse receipts and other documents representing the grain.

2. COLLINS GRAIN COMPANY had sold, shipped, or otherwise disposed of corn owned by Commodity Credit Corporation.

All in violation of Title 15, United States Code, Section 714m(a).

COUNT VIII

On or about the 26th day of June, 1980 at Shawnee Mission, in the District of Kansas, and within the jurisdiction of this Court

MARK W. COLLINS

did unlawfully, intentionally, feloniously and willfully make a material statement, knowing it to be false, for the purpose of influencing the action of Commodity Credit Corporation and for the purpose of obtaining for himself and others, money,

property, and other things of value from Commodity Credit Corporation. That is to say, that on or about the date stated and in the District aforesaid, MARK W. COLLINS executed and caused to be filed with the Kansas City Agricultural Stabilization and Conservation Service Commodity Office at Shawnee Mission, Kansas, for the purpose of obtaining a periodic payment to Collins Grain Company, Inc., Kackley, Kansas, of warehouse charges by Commodity Credit Corporation for the period ending June 8, 1980, a Form entitled "Loading Order, Trust Order and Invoice for Charges" reciting in substance as follows:

"I hereby certify that this invoice has been verified in detail by me or by someone under my direction, which verification has included the careful examination of complete records of inventories and storage obligations, and that all services for which payment of charges is claimed have been performed in full conformity with the provisions of my warehousing agreement with the Commodity Credit Corporation."

This statement was material in obtaining payment of warehouse charges by Commodity Credit Corporation. The statements contained in said certification, as MARK W. COLLINS then and there well knew, were false for the reason that the services during the period April 1, 1980, through June 8, 1980, for which payment was claimed, had not been performed in conformity with the provisions of COLLINS GRAIN COMPANY'S storage warehousing agreement with Commodity Credit Corporation in that:

1. COLLINS GRAIN COMPANY did not at all times maintain in its elevator at Kackley, Kansas a stock of grain (corn) equivalent in quantity, class and grade, and fairly representative of the quality which he was obligated to deliver to the holders of warehouse receipts and other documents representing the grain.

2. COLLINS GRAIN COMPANY had sold, shipped, or otherwise disposed of corn owned by Commodity Credit Corporation.

All in violation of Title 15, United States Code, Section 714m(a).

COUNT IX

On or about the 14th day of October, 1980 at Shawnee Mission, in the District of Kansas, and within the jurisdiction of this Court

MARK W. COLLINS

did unlawfully, intentionally, feloniously and willfully make a material statement, knowing it to be false, for the purpose of influencing the action of Commodity Credit Corporation and for the purpose of obtaining for himself and others, money, property, and other things of value from Commodity Credit Corporation. That is to say, that on or about the date stated and in the District aforesaid, MARK W. COLLINS executed and caused to be filed with the Kansas City Agricultural Stabilization and Conservation Service Commodity Office at Shawnee Mission, Kansas, for the purpose of obtaining a periodic payment to Collins Grain Company, Inc., Kackley, Kansas, of warehouse charges by Commodity Credit Corporation for the period ending September 26, 1980, a Form entitled "Loading Order, Trust Order and Invoice for Charges" reciting in substance as follows:

"I hereby certify that this invoice has been verified in detail by me or by someone under my direction, which verification has included the careful examination of complete records of inventories and storage obligations, and that all services for which payment of charges is claimed have been performed in full conformity with the provisions of my warehousing agreement with the Commodity Credit Corporation."

This statement was material in obtaining payment of warehouse charges by Commodity Credit Corporation. The statements contained in said certification, as MARK W. COLLINS then and there well knew, were false for the reason that the services during the period July 1, 1980, through September 26, 1980, for which payment was claimed, had not been performed in conformity with the provisions of COLLINS GRAIN COMPANY'S storage warehousing agreement with Commodity Credit Corporation in that:

1. COLLINS GRAIN COMPANY did not at all times maintain



in its elevator at Kackley, Kansas a stock of grain (wheat) equivalent in quantity, class and grade, and fairly representative of the quality which he was obligated to deliver to the holders of warehouse receipts and other documents representing the grain.

2. COLLINS GRAIN COMPANY had sold, shipped, or otherwise disposed of wheat owned by Commodity Credit Corporation.

All in violation of Title 15, United States Code, Section 714m(a).

COUNT X

On or about the 19th day of September, 1980, at Kackley, in the District of Kansas, and within the jurisdiction of this Court,

MARK W. COLLINS

did willfully, intentionally, unlawfully and feloniously steal, conceal, remove, dispose of, and convert to his own use and to the use of another, property having a value in excess of \$500.00 owned, held by, and pledged to Commodity Credit Corporation. That is to say, during the period and in the District aforesaid, MARK W. COLLINS did willfully steal, conceal, remove, dispose of, and convert to the use of MARK W. COLLINS approximately 1,925 bushels of corn pledged to Commodity Credit Corporation which had been stored in the Collins Grain Company elevator at Kackley, Kansas. Such corn, having an approximate value of \$5,794.00 was sold and delivered to the Wright-Lorenz Grain Company, Inc., Salina, Kansas, as part of a total sale of 17,500 bushels of corn; approximately 1,925 bushels of which represented corn pledged to the Commodity Credit Corporation on a price support loan by Frank, Ralph and Darlene Standley of Courtland, Kansas and stored at Collins Grain Company's elevator as part of a total pledge of 8,997.14 bushels, the value of said 1,925 bushels being \$5,794.00.

All in violation of Title 15, United States Code, Section 714m(c).

A TRUE BILL.

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DATE

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FOREMAN OF THE GRAND JURY

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UNITED STATES ATTORNEY  
District of Kansas

[It is requested that trial be held in Topeka, Kansas]

Bond fixed at: \$ \_\_\_\_\_

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UNITED STATES DISTRICT JUDGE

STATEMENT OF  
GERALD RILEY, FIRST VICE PRESIDENT  
KANSAS ASSOCIATION OF WHEAT GROWERS  
BEFORE THE  
COMMITTEE ON AGRICULTURE AND LIVESTOCK  
TOPEKA, KANSAS  
MARCH 22, 1983

Mr. Chairman, I am Gerald Riley, a wheat producer from Lane County and First Vice President and legislative representative of the Kansas Association of Wheat Growers. I appear here today to speak in favor of Senate Bill's 1, 2, 3, 5 & 6.

Senate Bill No. 1: We are in favor of this bill with the following changes: Section 1, page 2, line 0058; we would like the following change made in the wording: a compilation report of the financial statement to read: a review of the financial statement.

Senate Bill No. 2: We support this bill as written.

Senate Bill No. 3: We support this bill as written.

Senate Bill No. 5: We support this bill as written.

Senate Bill No. 6: We support this bill but feel that the method of selection of the State Grain Inspector should be as follows:

The Grain Advisory Board shall choose three or more qualified persons to fill the position of State Grain Inspector; the names of these persons shall be sent to the Governor who will select the person to fill this position from these names.

PUBLIC ACCOUNTANTS ASSOCIATION OF KANSAS, INC.

Statement regarding S.B. 1

to

House Agriculture and Livestock Committee

March 22, 1983

Chairman Fuller, members of the Committee, I am Dale M. Sprague, Legal and Legislative Counsel for the Public Accountants Association of Kansas, Inc., a professional organization representing over 200 Kansas public accountants and their individually owned businesses and firms. Accompanying me today is Mr. Glen Gillmore, partner in the firm of Sink & Gillmore, Manhattan, Kansas, who is experienced in grain elevator accounting practices and principles.

Our purpose in appearing before the Committee regarding Senate Bill 1 today is twofold: First, to inform you about the importance and impact of professional accounting terms contained in the bill, and second, to offer two amendments which we believe will strengthen its provisions.

Before asking Mr. Gillmore to explain the accounting terms, I ask each Member to place firmly in mind the reasons why Senate Bill 1 has been drafted. We are all here to do what is possible to prevent future failures of grain elevators in the State of Kansas so that the singularly largest segment of our economy, agriculture, is not harmed by catastrophic losses suffered by individual farmers. Bankruptcy and insolvency of grain elevators are, in their own rights, functions of accounting since they are financial, fiscal failures. It is most important, therefore, that the accounting profession

*Att. 3*

be present today to present what we believe to be some of the most important testimony for the Committee's use.

I now introduce to you Mr. Glen Gillmore to present information on accounting terms, particularly as found on page 2, of the Bill.

(Presentation of Glen Gillmore)

In order to assure the Kansas farmer storing grain vulnerable to the financial strength of the elevator, two amendments are proper. A "balloon" copy of §1(b) of the Bill as proposed to be amended is attached to this statement.


The first amendment, line 49, is technical in nature. As presently worded, "fairly represents" has no meaning in accounting. On the other hand, "presents fairly" indicates affirmatively that the financial statement being required sets forth with reasonable, professional accuracy the truest financial condition at the time the statement is given. We urge this technical change and adoption.

The second amendment, line 51, the insertion of the phrase "prepared in accordance with generally accepted accounting principles" carries substantial weight. Known as "GAAP", these standards are uniformly agreed accounting principles which require strict, established guidelines to be used by the preparer of an audit, review or compilation in such a fashion that other accountants or parties, such as the State Grain Inspection Department, can understand the way in which the financial statement has been prepared. Omitting "GAAP" permits preparation of financial statements in

loose and unacceptable manners which may be misunderstood if not actually misleading. The purpose of state licensing of the 50-60 effected elevators assures financial disclosure and stability only if the financial statement is complete and properly prepared. Financial statements not prepared in accordance with generally accepted accounting principles are not acceptable in the financial and accounting communities and should not be acceptable to the State Grain Inspection Department. We feel it is critical that the Committee include this Amendment.

Thank you for your kind attention to these difficult concepts. Mr. Gillmore and I will be pleased answer any questions which you may have.

Respectfully submitted,

  
Dale M. Sprague

PROPOSED REVISIONS SENATE BILL 1

Section 1(b):

0040 Every application for a public warehouse license shall be  
0041 accompanied by a current financial statement. The statement  
0042 shall include such information as required by the director to  
0043 administer and enforce the public warehouse laws of this state,  
0044 including but not limited to a current balance sheet, statement of  
0045 income (profit and loss), statement of retained earnings and  
0046 statement of changes in financial position. The applicant shall  
0047 certify under oath that the statement as prepared accurately  
0048 reflects the financial condition of the applicant as of the date  
0049 specified and presents fairly ~~fairly~~ ~~represents~~ the results of operations  
of the  
0050 applicant's public warehouse business for the period specified.  
0051 The financial statement shall be prepared in accordance with  
generally accepted accounting principles and shall be accompanied  
by (1) A report of  
0052 audit or review conducted by an independent certified public  
0053 accountant or an independent public accountant in accordance  
0054 with standards established by the American institute of certified  
0055 public accountants and the accountant's certifications, assur-  
0056 ances, opinions, comments and notes with respect to the state-  
0057 ment; or (2) a compilation report of the financial statement,  
0058 prepared by a grain commission firm or management firm which  
0059 is authorized pursuant to rules and regulations of the federal  
0060 commodity credit corporation to provide compilation reports of  
0061 financial statement of warehousemen.



PAAK, INC.

STATEMENT REGARDING SENATE BILL #1  
TO  
AGRICULTURAL AND LIVESTOCK COMMITTEE  
MARCH 22, 1983

It is our objective to inform you of differences of financial statement reporting requirements concerning compilation, review and audit. I am sure that most of you understand that audits indicate extensive preparation time and complete reliance by third parties. As a result of this I'm not going to spend any time this morning concerning the merits of audited financial statements. Our main emphasis will relate around the differential between compilation and review as addressed in Senate Bill #1, Lines 51-61. In the best interest of time to promote efficiency since I know you're under a busy and tight schedule I have obtained permission from the Publishing Co. to photocopy the minimum requirements of these statements as presented in this book "General Accepted Auditing Standards". These minimum requirements are to be performed by anyone preparing compilation and/or review financial statements. We have highlighted the sections of main emphasis. I will now quote from Item 6, Page 40.35 of the GAAS Guide (minimum standards required to be performed on compilation statements dealing with verification of amounts reported on the compiled financial statements):

1. Prepare a trial balance showing financial statement combinations.
2. Compare the information in the financial statements to the trial balance.
3. Prove the clerical accuracy of the financial statements.

This is in a nut shell the basic program provided for preparing compilation statements. The review, however, is quite different. The procedures are far more extensive and as you can tell, each of the asset and liability items have significant procedures applied to verify proper reporting of these accounts. As we have indicated and marked on the enclosed copies, numerous tests must be performed on each of these areas to insure proper presentation of financial statement information. As a result of the substantial increase in minimum standards for review statements, the review statement provides limited assurance to third parties and full disclosure of relevant financial information.

As you study and obtain information concerning Senate Bill #1, it is our belief that you should consider the differential in financial statement requirements as it exists between compilation and review. Since Senate Bill #1 addresses third party reliance upon financial statement information submitted to them for warehouse licensing, the issue of "compilation" versus "review" should certainly be addressed. It is our purpose in this presentation to inform you that differences exist between compilation and review and to pass on information which we feel is important concerning the total testimony regarding this piece of legislation.

ance may be obtained from SAS-36, which covers the review of interim unaudited financial information of a public entity. SAS-36 states that "Adequate planning by the accountant is essential to the timely completion of a review of interim financial information." SAS-36 also points out that it may be more efficient for the accountant to perform some of the work before the end of the interim period. This usually contributes to an earlier completion date.

Probably the best method of planning and supervising a compilation or review engagement is to create a written work program tailored to the specific engagement. The following sections contain a detailed program for both compilation and review engagements and a discussion on the supervision of an engagement follows.

### Comprehensive Program for a Compilation of Financial Statements

#### General

This program provides for the minimum procedures considered necessary to compile financial statements. It may be necessary to expand specific procedures, or to add additional procedures, because of the specific industry or nature of the client's business, or because of information developed from completion of procedures required by this program. The program assumes that the accountant has the required knowledge of the accounting principles and practices of the client's industry.

#### Compilation Procedures

1. Prepare an engagement letter describing the understanding established with the client as to the services to be provided. Include in the engagement letter a description of the basis to be used in preparing the financial statements, if not generally accepted accounting principles.
2. Prepare or update the prior year's outline of the client's business transactions.
3. Prepare or update the prior year's outline of the form of the client's records and the stated qualifications of its accounting personnel.
4.
  - a. Prepare or update the prior year's outline of the unique accounting principles and practices employed by the client because of the industry, or major industries, in which it operates. Also include details of unique financial statement disclosure requirements.
  - b. If new pronouncements have been issued that affect the client's accounting principles and practices, review them for their effect on the financial statements.

5. On the basis of information obtained during the completion of the previous procedures, consider the need to perform other accounting services. Any such services deemed necessary and the reasons for their need, along with information on conclusions reached after their completion, should be listed at the end of this program.
6.
  - a. Prepare a trial balance showing financial statement combinations.
  - b. Compare the information in the financial statements to the trial balance.
  - c. Prove the clerical accuracy of the financial statements.
7. Read the financial statements and notes thereto.
  - a. Are they appropriate in form?
  - b. Are they free from obvious material error?
  - c. Have accounting principles been apparently applied correctly?
  - d. Have all necessary disclosures been adequately made, including those involving related parties?Prepare a brief write-up of any matters requiring attention because of this procedure.
8. Consider the need to obtain a client representation.
9. Have we any knowledge that information furnished us may be incorrect, incomplete, or otherwise unsatisfactory? If so, has the client furnished us additional or revised information? If appropriate, have all adjustments we believe necessary been made?
10. If the financial statements are to omit substantially all disclosures, are there any reasons why we should not be associated with such financial statements?
11. Prepare the accountant's report appropriate for the circumstances. Has it been modified to describe:
  - a. Any departures from GAAP?
  - b. The omission of:
    - i. Substantially all disclosures?
    - ii. The statement of changes in financial position?
  - c. The basis of accounting used, if not GAAP and not described in the financial statements?
  - d. An uncertainty or an inconsistency?If the financial statements are accompanied by supplementary information, has such information been covered by the report? If appropriate, has the report been expanded by the addition of a last paragraph stating that we are not independent of the client?
12. I have prepared, or reviewed, the working papers and the responses to the above procedures and am satisfied that there is no reason why we should not issue our report.

In charge \_\_\_\_\_

Manager/Partner \_\_\_\_\_



## Comprehensive Program for Review of Financial Statements

This program provides for the minimum procedures considered necessary to review financial statements. It should be revised as appropriate for individual clients to specifically cover their particular business activities and the industry or major industries in which they operate. The procedures, including the inquiries, are to be determined by the accountant's judgment as appropriate and adequate for the engagement. If information obtained appears incorrect, incomplete, or otherwise unsatisfactory, the procedures should be extended as necessary to satisfy ourselves that the financial statements do not require adjustment or additional disclosures for them to be in conformity with GAAP.

### Part I

#### Review Procedures—General

1. Prepare an engagement letter describing the understanding established with the client as to the services to be provided.
2. Prepare or update the prior year's outline of the client's business characteristics.
3.
  - a. Prepare or update the prior year's outline of the unique accounting principles and practices employed by the client because of the industry, or major industries, in which it operates. Include details of unique financial statement of disclosure requirements.
  - b. If new pronouncements have been issued that affect the client's accounting principles and practices, review them for their effect on the financial statements.
4. Prepare or update the prior year's outline of the client's significant procedures for recording, classifying, and summarizing transactions.
5. Read the minutes of meetings of shareholders and of the board of directors or committees thereof.
6. Read the financial statements and consider whether they appear to conform with generally accepted accounting principles.
7. Obtain the report of other accountants responsible for significant components of the financial statements.
8. Obtain a client representation letter.

### Part II

#### Review Procedures—Inquiries

The following inquiries cover matters that the accountant should consider in his evaluation whether or not his client's stated procedures are adequate. The inquiries may be too extensive or they may not be sufficiently comprehensive for particular clients and should therefore be supplemented as necessary.

In order for the accountant to evaluate answers to many of his questions, the client should be required to describe in sufficient detail the procedures

it follows. It will usually not be necessary for the accountant to perform any procedures to verify the accuracy of the client's description. But it may be necessary for the accountant to perform some procedures to ensure that he understands the client's procedures.

The inquiries may also disclose weaknesses in the client's systems and procedures which should be reported in a management letter.

The inquiries may usually be answered *Yes*, *No*, or *N/A*. Negative answers may require that additional inquiries or other procedures be completed, because of the possibility that significant errors or omissions may result from the situation.

#### 1. Cash

- a. Have significant bank balances been reconciled with book balances?
- b. Have larger or unusual reconciling items been reviewed, and have adjustments been made where necessary?
- c. Has there been a proper cutoff of:
  - Cash receipts?
  - Cash disbursements?
  - Cash transfers?
- d. Are cash balances unrestricted?
- e. Have significant cash funds been counted and reconciled with control accounts?

#### 2. Marketable Securities

- a. Have securities been accounted for and compared to subsidiary records?
- b. Have subsidiary records been reconciled to the general ledger control account?
- c. Have interest and dividend income and realized gains and losses been accounted for?
- d. Have unrealized losses been properly accounted for?
- e. Are marketable securities unencumbered?

#### 3. Accounts and Notes Receivable

- a. Has the subsidiary ledger of accounts and notes receivable been reconciled to the general ledger control account?
- b. Have receivables from employees, officers, related parties, and other nontrade debtors been properly classified?
- c. Have receivables been properly classified as current or noncurrent?
- d. Has interest due on receivables been accrued?
- e. Have credit memoranda been recorded on a timely basis?
- f. Has a proper cutoff of sales been made?
- g. Have adjustments been recorded for sales on consignment or for goods sent on approval?
- h. Have any receivables been pledged, discounted, or factored? If so, is the matter adequately disclosed in the financial statements?



#### 4. Allowances

- a. Have accounts and notes receivable considered uncollectible been written off?
- b. Has a review of collectibility of receivables been made and an adequate allowance for doubtful accounts been provided?
- c. Has a review been made for other allowances that may be required, such as cash or trade discounts?

#### 5. Inventories

- a. What is the basis of inventory valuation?
- b. Is market determined on the individual item or on an overall basis?
- c. For those inventories of manufactured goods, does the inventory valuation method include material, direct labor, and overhead?
- d. Are the costs used for material and direct labor valuation periodically revised to reflect current cost levels?
- e. Are overhead rates established to absorb substantially all overhead costs?
- f. Are the methods described above consistent with the prior year?
- g. Were inventories physically counted?
- h. Were goods consigned in and on consignment out considered in taking physical inventories?
- i. Was the clerical accuracy of the inventory summarization checked?
- j. Were the general ledger control accounts adjusted for differences disclosed by the physical inventories?
- k. Were the reasons for the required adjustments reviewed?
- l. Was the cutoff of sales considered for its effect on the physical inventory?
- m. Was the cutoff of purchases given attention so that substantially all:
  - Goods received were recorded?
  - Goods recorded but not received were set up as goods in transit or another appropriate category?
  - Returned goods were charged back to vendors?
- n. Were excess, damaged, and obsolete goods counted during physical inventories valued at net realizable value?  
If physical inventories were taken at a date or dates other than the balance sheet date, were appropriate procedures utilized to record changes in inventories from that date, or those dates, to the balance sheet date?
- o. If physical inventories were taken at a date, or dates, other than the balance sheet date, were appropriate procedures utilized to record changes in inventories from that date, or those dates, to the balance sheet date?

- p. Were interdepartmental or intercompany inventory profits eliminated or otherwise properly accounted for?
- q. Are inventories unencumbered?

#### 6. Prepaid Expenses

- a. Have amounts classified as prepaid expenses been reviewed to determine that the classification is proper?
- b. Are prepaid expenses amortized on a reasonable and consistent basis?

#### 7. Property, Plant, and Equipment

- a. Have detailed records of property been maintained and reconciled to general ledger control accounts, at least annually?
- b. Have property, plant, and equipment items been recorded at cost?
- c. Is there a policy for capitalization of property? If so, is it appropriate and has it been applied on a consistent basis?
- d. Were repair and maintenance expenditures expensed?
- e. Are depreciation methods and rates appropriate and consistent with those of the prior period?
- f. Have all sales, abandonments, and other retirements of fixed assets been properly accounted for in the current period?
- g. Have gains and losses on disposal of fixed assets been included in income?
- h. Is property free of mortgages and other encumbrances?
- i. Are there any material lease agreements?  
If so, have they been properly accounted for?

#### 8. Investments, including Loans, Mortgages, and Intercorporate Investments

- a. Have gains and losses on disposal been properly recorded?
- b. Has investment income been properly recorded?
- c. Have investments been properly classified as current and noncurrent?
- d. Has consideration been given to the difference between cost and market value of investments?
- e. Have consolidation or equity accounting requirements been considered?
- f. Are investments unencumbered?

#### 9. Other Assets

- a. Is the nature of these assets such that their costs will benefit future periods?
- b. Are other assets amortized on an appropriate basis and is the basis consistent with previous periods?
- c. Have other assets been properly classified as current and noncurrent?
- d. Are these assets free of mortgages and other encumbrances?



10. Accounts and Notes Payable and Accrued Liabilities

- a. Has the subsidiary ledger of accounts payable been reconciled to the general ledger control account?
- b. Have all significant amounts payable been recorded for:  
Purchases of inventory?  
Expenses, etc.?
- c. Have all disputes with vendors involving significant amounts been resolved?
- d. Have short-term notes payable been reconciled to the general ledger control account?
- e. Has a review been made that all significant accruals, such as payroll and related taxes, interest, property taxes, and provisions for pensions and profit sharing plans, have been properly recorded and disclosed?
- f. Have amounts payable to officers and related parties been separately classified?
- g. Have liabilities that are collateralized been identified for disclosure of collateral terms?

11. Long-Term Liabilities

- a. Are liabilities properly classified as current and long-term?
- b. Have interest and principal payments been timely made?
- c. Has interest expense been accrued?
- d. Have any borrowing arrangements been revised?
- e. Has the company entered into any new borrowing arrangements?
- f. Is the company in compliance with the terms and covenants of borrowing agreements?
- g. Are long-term liabilities unsecured and not subordinated?

12. Income and Other Taxes

- a. Has provision been made for current and prior-year federal, state, and local income taxes payable?
- b. Have tax examinations been completed?
- c. Have unresolved tax assessments been properly recorded at an estimate of the expected liability or been identified for disclosure?
- d. Has provision been made for state and local franchise, sales, and other taxes payable?

13. Other Liabilities

- a. Are the types of items classified as other liabilities properly classified as such?
- b. Have other liabilities been classified as current and noncurrent?

14. Contingencies and Commitments

- a. Have contingent liabilities been properly accounted for and disclosed (discounted notes, drafts, endorsements, warranties, and litigation)?
- b. Have all unasserted potential claims been properly accounted for and disclosed?

- c. Are there any material contractual obligations for construction or purchase of property?
- d. Are there any deferred compensation contracts?  
If so, are the contracts being accounted for properly?

15. Equity Accounts

- a. What is the nature of the changes in equity accounts?
- b. Have all classes of capital stock authorized been disclosed?
- c. Has the par or stated value of the various shares of capital stock been disclosed?
- d. Are the subsidiary ledgers of outstanding shares of capital stock in agreement with the general ledger control accounts?
- e. Have capital stock preferences, if any, been disclosed?
- f. Have all dividends on preferred stock been paid?  
If not, are dividends in arrears properly disclosed?
- g. Has the company reacquired any of its own capital stock?
- h. Are there any commitments or options to buy or sell capital stock, or any other securities of the company?
- i. Are retained earnings free of any restrictions?

16. Revenue and Expenses

- a. Is the basis for recognizing revenues from the sale of major products and services appropriate and consistent with the prior period?
- b. Have purchases and expenses been recognized in the appropriate period?
- c. Have purchases and expenses been properly classified, and are the classifications consistent with the prior period?
- d. Has the company discontinued any operations?  
If so, have they been properly classified in the financial statements?
- e. Are there any items classified as extraordinary?  
If so, are they properly classified?
- f. Are there material items that are unusual or which occur infrequently?  
If so, are they properly disclosed?

17. Other Inquiries

- a. Did any events occur after the end of the period which have a significant effect on the financial statements?
- b. Have all material transactions and balances between related parties been disclosed?
- c. Have all material uncertainties been disclosed?
- d. Are material uncertainties that were previously disclosed still unresolved?
- e. Have intercompany transactions or balances been eliminated in consolidated financial statements?

**Part III**  
**Review Procedures—Analytical**

1. Analytically review the financial statements and compare them to:
  - a. Prior-period financial statements
  - b. Budgets or forecasts of anticipated results for the current periodStudy the financial statements for relationships that do not conform to the predictable pattern.
2. Compare accounts receivable dollar levels and turnover rates to those of the prior period.
3. Compare inventory dollar levels and turnover rates to those of the prior period.
4. Compare the gross profit margins to those of the prior period.
5. Obtain explanations for any unusual fluctuations noted during the completion of the preceding four procedures.
6. Consider the need for additional inquiries or other procedures because of information obtained during completion of the preceding five procedures.

**Part IV**  
**Review Procedures—Financial Statements and Report**

1.
  - a. Prepare a trial balance showing financial statement combinations.
  - b. Compare the information in the financial statements to the trial balance.
  - c. Prove the clerical accuracy of the financial statements.
2. Read the financial statements and notes thereto.
  - a. Are they appropriate in form?
  - b. Are they free from obvious material errors?
  - c. Have accounting principles been apparently applied correctly?
  - d. Have all necessary disclosures been adequately made, including those involving related parties?Prepare a brief write-up of any matters requiring attention because of this procedure.
3. Have we any knowledge that information furnished us may be incorrect, incomplete, or otherwise unsatisfactory?  
If so, has the client furnished us additional or revised information, or have our other procedures resolved the matters?  
If appropriate, have all adjustments we believe necessary been made?
4. Prepare the accountant's report appropriate for the circumstances.  
Has it been modified to describe:
  - a. Any departures from GAAP?
  - b. An uncertainty or an inconsistency?If the financial statements are accompanied by supplementary information, has such information been covered by the report?  
Is the supplementary information compiled or reviewed?

5. I have prepared or reviewed the working papers and the responses to the above procedures and am satisfied that there is no reason why we should not issue our report.

In charge \_\_\_\_\_

Manager/Partner \_\_\_\_\_

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As mentioned previously, no official pronouncements have been issued for supervising a compilation or a review engagement. However, SAS-22 (Planning and Supervision) was issued for audit engagements, and much can be extracted from it and applied to compilation and review engagements. The following discussion is based on SAS-22.

An accountant is required by the general standards of the profession (Rule 201) to adequately plan and supervise a compilation or review engagement. Planning and supervision usually necessitates (1) the preparation of a written work program, (2) obtaining knowledge of the client's business activities, and (3) dealing with differences that may arise between accountants involved in the engagement. Planning and supervision is a continuous function that lasts throughout the entire engagement, and it may be delegated by the in-charge accountant to other personnel.

More often than not, the accountant with the final responsibility will require assistants to accomplish the objectives of the engagement. Controlling and directing the efforts of the assistants are an integral part of supervising. Assurance must be obtained that the assistants are following the planned procedures.

Both the quality and the quantity of supervision are important. The extent of supervision depends upon the qualifications of the assistants and the complexity of the work or subject matter. A supervisor must be kept constantly informed of new developments and significant problems that arise during the engagement. The supervisor is usually also charged with the responsibility of evaluating the quality and quantity of work performed by his assistants.

A difference between the supervisor and his assistants may arise during the engagement. If the difference is not resolved, it should be appropriately documented in the work papers of the engage-

STATEMENT  
OF  
IVAN W. WYATT, PRESIDENT  
KANSAS FARMERS UNION  
BEFORE  
THE HOUSE COMMITTEE ON  
AGRICULTURE AND LIVESTOCK  
ON  
SB-1, SB-2, SB-3, SB-4, SB-5, SB-6  
(ELEVATOR BANKRUPTCY)

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM IVAN WYATT, PRESIDENT OF THE KANSAS FARMERS UNION.

NEEDLESS TO SAY, THE PURPOSE OF THESE PROPOSED BILLS HAVE TO BE TWO-FOLD. ONE, TO PROTECT THE FARMERS FROM LOSSES CAUSED BY GRAIN ELEVATORS GOING INTO BANKRUPTCY OR FORECLOSURE AND SECOND, TO RETURN FARMERS CONFIDENCE IN THE ELEVATORS OPERATING WITHIN THE STATE, ESPECIALLY THE INDEPENDENT, PRIVATELY OWNED GRAIN ELEVATORS.

EVERYTIME I DUMP A LOAD OF GRAIN IN ONE OF THOSE ELEVATORS, I THINK OF WHAT'S BEEN HAPPENING--I DON'T LIKE THAT--BECAUSE I KNOW THE PEOPLE OPERATING THOSE ELEVATORS ARE GOOD HARD WORKING PEOPLE TRYING TO MAKE A LIVING FOR THEMSELVES AND THEIR FAMILY, BUT STILL I WORRY EVERYTIME I DUMP A LOAD OF GRAIN, JUST, AS I AM SURE, EVERY OTHER FARMER DOES ALSO.

THAT'S THE TASK BEFORE US, TO RETURN THE CONFIDENCE OF THE FARMER IN HIS LOCAL GRAIN ELEVATOR; CONFIDENCE THAT HIS GRAIN IS AS SAFE AS REASONABLY POSSIBLE.

THIS NATION'S BANKING SYSTEM WAS IN A SIMILAR SITUATION DURING THE EARLY 30'S, BUT PROPER LEGISLATION RETURNED THE PEOPLE'S CONFIDENCE IN OUR BANKING SYSTEM. WE MUST DO THE SAME FOR THE GRAIN ELEVATOR INDUSTRY IN KANSAS.

*Att. h. 4*



HOWEVER, WE HAVE TO BE WARY WE DO NOT TAKE ACTIONS THAT MIGHT DRIVE THE SMALLER LOCAL ELEVATOR OPERATORS OUT OF BUSINESS, SUCH AS SETTING BONDING LEVELS TOO HIGH, ETC. TO DO THIS WOULD NOT SERVE THE BEST INTERESTS OF THE FARMER IF IT FORCED HIM TO TRANSPORT HIS GRAIN FURTHER, ESPECIALLY AT HARVEST TIME.

I THINK THIS SET OF BILLS OVER ALL ARE A GOOD SET OF PROPOSALS. HOWEVER, THE CAUSE OF MANY ELEVATOR FAILURES IS NOT DEALT WITH IN THESE BILLS.

DURING THE INTERIM HEARINGS, THE PROBLEM OF WAREHOUSEMAN SPECULATING ON COMMODITY FUTURES WAS SPOKEN TO AND RIGHTLY SO, AS NATIONAL FIGURES INDICATE THIS IS THE MAJOR CAUSE OF ELEVATOR FAILURES, SOMETHING OVER 95%.

THE KANSAS FARMERS UNION POLICY SPEAKS DIRECTLY TO THIS PROBLEM AND CALLS FOR THE PROHIBITION OF STATE LICENSED WAREHOUSEMEN SPECULATING ON COMMODITY FUTURES EXCEPT AS A MANAGEMENT TOOL IN "LEGITIMATE HEDGING."

THE FARMERS UNION POLICY ALSO CALLS FOR THE PROHIBITION OF THE USE OF DELAYED AND DEFERRED PRICING SCHEMES, ANOTHER MAJOR FACTOR IN ELEVATOR FAILURES.

IN MOST CASES ANNUAL STATEMENTS OF DEPOSITS AS IN SB-NO. 2, AND MORE IN DEPTH AUDITS SHOULD GIVE ADVANCE WARNING OF OPERATIONS THAT MAY BE DRIFTING INTO FINANCIAL DIFFICULTIES. HOWEVER, IN THE CASE OF A WAREHOUSEMAN INVOLVED IN SPECULATION OF COMMODITY FUTURES, A MASSIVE LOSS CAN HAPPEN SO SUDDENLY AND BE SO DEVASTATING, THAT EVEN MORE FREQUENT AUDITS CANNOT PICK UP PENDING DISASTER.

(MORE)

SOME OF YOU MAY RECALL THE INCIDENT BANK IN DECEMBER, 1980, WHEN ONE OF THE STATE'S LARGER FARMERS WAS RUINED FINANCIALLY WHEN HE LOST ALMOST \$800,000 IN FOUR DAYS IN THE FUTURES MARKET.

SUCH A LOSS CAN AND MAY HAPPEN TO ANY OF THE STATES LICENSED WAREHOUSEMEN.

THERE IS NO WAY THE STATE CAN PREVENT THE FARMER FROM SUFFERING A FINANCIAL LOSS IF HE UNKNOWINGLY PLACES GRAIN IN ONE OF THESE OPERATIONS AND IF BANKRUPTCY OR FORECLOSURE OCCURS.

EVEN THOUGH ONLY A FEW STATE LICENSED ELEVATOR OPERATORS MAY BE INVOLVED IN SPECULATING ON THE FUTURES MARKET, BUT AS LONG AS IT IS ALLOWED, A CLOUD OF DOUBT OR QUESTION HANGS OVER EVERY INDEPENDENT ELEVATOR OPERATION IN THE STATE.

UNTIL THERE IS A PROHIBITION OF SPECULATION AND DELAYED OR DEFERRED PRICING THERE CANNOT BE A RETURN OF CONFIDENCE TO THE ELEVATOR INDUSTRY IN THE STATE.

WE AGREE WITH SENATE BILL No. 3 THAT THE DIRECTOR OF THE GRAIN INSPECTION DEPARTMENT SHOULD BECOME THE "TEMPORARY RECEIVER" WHEN EXAMINATION INDICATES THE NEED. HOWEVER, AFTER PROPER COURT PROCEDURES AND IF THE FACTS WARRANT THE COURTS APPOINTMENT OF A "RECEIVER", THE LEGISLATURE SHOULD DIRECT THE COURT TO APPOINT THE STATE DIRECTOR OF THE GRAIN INSPECTION DEPARTMENT TO BE THE "RECEIVER."

IN THE PAST, WE HAVE SEEN COURT APPOINTED "RECEIVERS" ALLOWING SIMPLE SETTLEMENTS DRAG ON FOR MONTHS AND YEARS; WHEREAS THE STATE DIRECTOR WOULD ALREADY BE ACQUAINTED WITH THE OPERATION AND UNDERSTANDS THE GRAIN BUSINESS; HIS EXPERTICE AND EXPERIENCE SHOULD SPEED UP SETTLEMENTS AND PREVENT NEEDLESS LONG DRAWN OUT SETTLEMENTS OF THE PAST, ESPECIALLY IN THE CASE WHERE NO GRAIN SHORTAGES ARE INVOLVED, SUCH AS THE CASE IN COUNCIL GROVE.

(MORE)

THESE SIX SENATE BILLS BASICALLY DEAL NOT WITH THE CAUSE OF ELEVATOR FAILURES, BUT DEAL WITH THE PROBLEM AFTER THE FACT.

THESE BILLS PROBABLY WOULD BE ADEQUATE IF THERE WAS FEDERAL LEGISLATION TO ESTABLISH A FDIC TYPE GRAIN DEPOSITORS INSURANCE MUCH LIKE THE FDIC PROGRAM THAT INSURES THE DEPOSITOR OF MONEY IN OUR BANKS.

ON MARCH 14, I APPEARED BEFORE A CONGRESSIONAL AD HOC COMMITTEE HEARING ON GRAIN ELEVATOR BANKRUPTCY. THE ISSUE OF A FEDERAL FDIC INSURANCE TYPE PROGRAM FOR GRAIN STORED IN PUBLIC ELEVATORS WAS ONE OF THE HIGH POINTS OF THE HEARINGS. HOWEVER, A PRIVATE INSURANCE COMPANY WAS VERY ADAMENT IN OPPOSING THE FDIC APPROACH. BECAUSE, AS THEY STATED, THEY WANTED TO MARKET AN INSURANCE POLICY OF THEIR OWN TO FARMERS AS A GROUP INSURANCE PLAN; HOWEVER, THEIR GROUP INSURANCE PLAN WOULD LEAVE FARMERS EXPOSED UP TO A 35% LOSS RELATED TO AN ELEVATOR SHORTAGE OF GRAIN.

HOWEVER, THIS POSSIBLE SOLUTION TO THE FARMERS' EXPOSURE TO SUBSTANTIAL LOSS IN AN ELEVATOR FAILURE IS NOT YET FORTHCOMING AT THE FEDERAL LEVEL.

ONE CONGRESSMAN SITTING ON THIS AD HOC COMMITTEE SPEAKING TO THE PROBLEM OF MAJOR LOSSES SUFFERED BY ELEVATOR WAREHOUSEMEN SPECULATING ON THE FUTURES MARKETS, STATED THAT THE STATE OF IOWA REQUIRES ANY ELEVATOR WAREHOUSEMAN THAT TRADES ON THE FUTURES MARKET TO HAVE 90% OF THOSE CONTRACTS COVERED WITH EITHER THEIR OWN GRAIN OR BY BONDING.

THIS WOULD DO MUCH HERE IN KANSAS TO RETURN FARMERS' CONFIDENCE TO THE GRAIN ELEVATOR INDUSTRY OF THE STATE.

GRAIN FARMERS ARE NOT THE ONLY PEOPLE IN AGRICULTURE WHO ARE SUSPICIOUS OF THE SPECULATIVE INFLUENCE ON THE FUTURES MARKET.

(MORE)

A RECENT PUBLIC OPINION POLL OF LIVESTOCKMEN SHOWED THAT 91.6% OF THEM VOICED A CONCERN OF OPERATION OF THE COMMODITY FUTURES TRADING.

THEREFORE, THE FARMERS UNION MAKES THESE RECOMMENDED CHANGES IN THESE BILLS. BECAUSE OF THE GREAT DOUBTS THAT BOTH FARMERS AND STOCKMEN HAVE IN THE COMMODITY FUTURES TRADING, WE RECOMMEND THAT THIS COMMITTEE TAKE A SERIOUS LOOK AT THE IOWA LAW THAT PROTECTS THE FARMER WHO PLACES HIS GRAIN IN A STATE LICENSED ELEVATOR FROM HAVING HIS GRAIN INVOLUNTARILY INVOLVED IN A SPECULATIVE VENTURE.

IF A FARMER WANTS TO SPECULATE THAT'S FINE, BUT THE FARMER SHOULD BE PROTECTED BY THE STATE LICENSE OF THE GRAIN ELEVATOR FROM SUFFERING A SPECULATIVE LOSS THAT HE HAS NO CONTROL OVER TO PREVENT.

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