

# MONTANA LEGISLATIVE AUDIT DIVISION

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07P-10

Performance Audit Summary

## State Grain Laboratory Operations and Future Viability

The State Grain Laboratory (SGL) has struggled to financially sustain itself and without additional or alternative funding and management controls, will not have a viable future.

### Audit Findings

Quality plays a significant factor in the marketability and selling price of grain. SGL is the only licensed grain lab in Montana and tests grain samples to determine quality. The Department of Agriculture has chosen to require SGL to be primarily self-sustaining from revenue derived from inspection fees. However, during our audit, we identified factors that make it difficult for SGL to rely solely on inspection fees to fund its operations.

Factors affecting revenues, but outside the control of SGL, include drought and subsequent low production years, market prices, and competition from other grain labs. SGL has both increased and decreased fees for its services; however, these changes have not significantly affected its financial stability. Additionally, unanticipated expenditures including termination expenditures, statutory pay raises, rising utility costs, and equipment purchases have a significant impact on SGL's financial position.

In recent years, SGL obtained financial assistance from intra-departmental programs and Montana Wheat and Barley Committee. However, these grant moneys cannot be considered stable funding sources and have not provided SGL a consistent revenue stream sufficient to support ongoing expenditures (see SGL financial data table). Since the grain industry appears to view SGL as an important resource, its long-term viability is dependent on a stable funding source.

Until recently, it appears SGL has focused on basic operations. Due to competition, number of samples decreasing, anticipated turnover of highly experienced personnel, and

**SGL Financial Data by Fiscal Year**

Fiscal Year	Revenue (including grant assistance)	Expenditures	Revenue Over Expenditures
1998	\$413,662	\$430,933	(\$17,271)
1999	\$427,429	\$431,379	(\$3,950)
2000	\$466,533	\$451,104	\$15,429
2001	\$367,939	\$414,327	(\$46,388)
2002	\$296,125	\$279,105	\$17,020
2003	\$442,971	\$380,520	\$62,451
2004	\$394,969	\$407,699	(\$12,730)
2005	\$411,470	\$377,902	\$33,568
2006	\$461,695	\$486,656	(\$24,961)
2007	\$460,533	\$449,704	\$10,829

Source: Compiled by the Legislative Audit Division from Department of Agriculture records and SABHRS data.

financial difficulties, additional management controls are needed. These controls should include a strategic plan, equipment and capital improvement schedules, written policies and procedures, a reliable automated system, staffing controls, and management information. These management controls would enhance the effectiveness and efficiency of SGL.

Currently, statutory provisions require grain elevator operators post placards listing SGL's sampling and inspection fees and the elevator operator's anticipated shipping and handling fees. Elevator operators must provide producers with written agreements authorizing them to state a preference of grading facility. Through survey work and visits to elevators, we identified elevator operators are not complying with these provisions in section 80-4-711, MCA. In addition, the department has not coordinated an effort between its various programs to enforce these statutory provisions.

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## **Audit Recommendations**

Our recommendations address the need for an additional or alternative funding source if SGL is to be viable in the future. To address improvements in SGL's efficiency and effectiveness, we recommend the Department of Agriculture implement

comprehensive management controls at SGL. We also recommend the department increase enforcement of section 80-4-711, MCA. By obtaining a stable funding source, implementing management controls, and enforcing statutory provisions, improvements could be made in SGL's operations.

For a complete copy of the report (07P-10) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit.htm>