

Chapter 1

Section 1.05

Ministry of Agriculture, Food and Rural Affairs

Farm Support Programs

Follow-Up on VFM Section 3.05, 2017 Annual Report

RECOMMENDATION STATUS OVERVIEW						
	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1		1			
Recommendation 2	1		1			
Recommendation 3	2	1	1			
Recommendation 4	1	1				
Recommendation 5	1		1			
Recommendation 6	1		1			
Recommendation 7	2		1	1		
Recommendation 8	1		1			
Recommendation 9	2	1			1	
Recommendation 10	2			2		
Recommendation 11	2		1	1		
Recommendation 12	1			1		
Recommendation 13	1	1				
Recommendation 14	2		2			
Total	20	4	10	5	1	0
%	100	20	50	25	5	0

Overall Conclusion

As of October 31, 2019, the Ministry of Agriculture, Food and Rural Affairs (Ministry) and Agricorp, an Ontario Crown corporation that delivers most farm support programs, have fully implemented 20% of

the actions we recommended in our *2017 Annual Report*. The Ministry and Agricorp have made progress in implementing an additional 50% of the recommended actions but had made little or no progress on 25% of them and will not be implementing 5% of them.

Since our 2017 audit, Agricorp has identified the types of livestock business arrangements that

could have an impact on farmers' eligibility for the Ontario Risk Management Program and those farmers who are involved in such arrangements. In addition, in October 2018 and April 2019, AgriCorp's program audit group presented to its board of directors about significant risks that AgriCorp's staff face in processing payment applications. AgriCorp plans to continue these presentations by the program audit group twice a year. The Ministry has also worked with stakeholder groups to identify why uptake for AgriStability interim payments is low. The Ministry found in its jurisdiction review and stakeholder consultations that commodity groups had no issue regarding the uptake of interim payments.

At the time of our follow-up, the Ministry and AgriCorp were in the process of:

- updating AgriCorp's Production Insurance software to include triggers and tracking for field visits by March 2020;
- clarifying the definitions for determining ownership of cattle under the Ontario Risk Management Program by December 2019;
- identifying by January 2020 the effect that changes made in 2013 had on AgriStability's ability to support farmers;
- rolling out a new insurance-like Ontario Risk Management Program, including implementing new performance measures for the Program, by January 2021; and
- making substantive changes to the AgriStability program, as well as updating its business-risk-management program performance measurements by April 2023.

However, AgriCorp has made little progress on our recommendations to require source documentation from farmers engaged in high-risk business-risk arrangements. AgriCorp has also not determined the cost to fully update its information technology (IT) systems, particularly the system used to process AgriStability payments. The Ministry has also made little progress on our recommendations to educate farmers on the level of risk they are expected to manage themselves, develop a

crisis-response plan that provides criteria for when support will be provided and to whom, and work with federal, provincial and territorial governments to improve the timeliness of AgriRecovery.

AgriCorp had indicated that it will not make changes to its manual processes to calculate interim AgriStability payments. We believe this is a significant recommendation and continue to recommend that AgriCorp take actions to address it.

The status of actions taken on each of our recommendations is described in this report.

Background

Ontario's 49,600 farms account for one-quarter of all farms in Canada. In 2018, Ontario's agricultural sector contributed \$7.6 billion (\$4.4 billion in 2016) to the provincial economy and employed almost 69,000 people.

Farmers face two broad categories of operating risks: production risks relate primarily to the risk of lower production caused by such issues as weather, disease and pests, and price risks relate to fluctuations in both the cost of goods and services farmers must buy and the prices at which they can sell their commodities.

The federal, provincial and territorial governments share responsibility for developing agricultural policy frameworks and agreements to deliver programs to help farmers manage these risks. In Ontario, the Ministry of Agriculture, Food and Rural Affairs (Ministry) is responsible for farm-support policy decisions. AgriCorp, an Ontario Crown agency, delivers most farm-support programs.

From 2012/13 to 2018/19, the federal government and the Ministry spent a total of \$3.2 billion on farm-support programs in Ontario. Four business-risk-management programs provided most of the financial assistance to farmers:

- Production Insurance compensates crop farmers for lower yield due to adverse weather, wildlife, pest infestation or disease.

- AgriStability compensates farmers for significant drops in their farm income.
- AgriInvest is a savings program in which the federal and provincial governments match farmers' deposits to help farmers manage small decreases in income.
- The Ontario Risk Management Program compensates livestock, grains, and oilseed farmers when the cost of producing their commodities exceeds their market value. The Program serves fruit-and-vegetable farmers in a similar way to AgriInvest.

Our audit in 2017 found that the programs were not fully effective in ensuring support for farmers to manage their risks. Production Insurance appeared to provide timely and sufficient support to help crop farmers manage production risks, but we found that weaknesses in the design of the other programs limited the ability of the entire suite of farm-support programs to provide appropriate support. Specifically:

- The Ontario Risk Management Program often paid farmers with little regard to each farmer's needs because payments were based on the industry-average production cost instead of a farmer's actual costs. The Program's design also benefited large farms, which received payments based on higher industry-average production costs rather than on their actual—usually lower—costs due to economies of scale.
- AgriStability's ability to provide support was limited by low farmer participation. Farmers cited a number of reasons for not participating, including delays in payments, recent changes that resulted in lower payments, and inequities across sectors.
- Existing programs would likely be insufficient during a market-related crisis, and the Ministry's existing plans were inadequate to provide support during such crises because they did not say how support would be provided and were not designed to deal with long-term or market-related crises.

- Agricorp's systems and processes needed to improve to reduce overpayments due to incorrect and misleading information from farmers. In 31% of the 560 audits conducted in the five years prior to our audit, Agricorp's program auditors identified \$5.6 million in over- and underpayments to farmers resulting from incorrect or false information provided to Agricorp.
- Agricorp used more than 30 IT systems to administer its programs, but one of its four main systems was 25 years old while another was over 10 years old. In the five years prior to our audit, there had been 31 system-related errors that led to farmers either receiving incorrect information about their program participation or incorrect payments totalling over \$2.7 million.

We made 14 recommendations, consisting of 20 action items, to address our audit findings.

We received commitment from the Ministry and Agricorp that they would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between May 1, 2019, and August 31, 2019. We obtained written representation from the Ministry of Agriculture, Food and Rural Affairs and Agricorp that effective October 31, 2019, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Ontario Risk Management Program Pays Farmers with Little Regard to Individual Need

Recommendation 1

To ensure that Ontario Risk Management Program payments are appropriate for the individual needs

of farmers, we recommend that the Ministry of Agriculture, Food and Rural Affairs improve the current method of using industry-average cost-of-production to calculate payments or analyze whether an alternative method would be more appropriate.

Status: In the process of being implemented by January 2021.

Details

In our 2017 audit, we found that there was little connection between the Ontario Risk Management Program (Program) payments and individual farmers' incomes. Specifically:

- Farmers in the livestock or grains-and-oilseeds sectors who participated in the Program received payments based on an industry-average cost of producing their commodity. We noted two issues with using the "industry average" to calculate the payments. First, the industry average did not necessarily reflect each farmer's actual cost to produce the commodity. Second, the average cost was calculated using a small number of farms, with one commodity's average cost being calculated based on a sample of only six farmers.
- Fruit-and-vegetable growers who participated in the Program could request support payments for any reason.

As a result, we noted that farmers received payments even in profitable years. For example, of farmers who received payments between 2011 and 2015, only half had experienced lower income than the previous year or a loss in the year they received the payment. We also found that 30% of farmers who received payments reported higher income than the previous year. Payments made with no correlation to a farmer's individual financial situation do not stabilize income, as intended by the Program. During our audit, we were informed that the Ministry planned to move away from the industry-average method, with changes expected to be implemented by 2019.

The Ministry began reviewing the Program in January 2018 and in January 2019, decided to

transition to an insurance-like program, similar to Production Insurance. We reviewed internal documents about the proposed program and noted that under the new insurance-like program, farmers would be required to obtain coverage before any loss occurs, with premiums and benefits based on the farmer's individual situation.

In April 2019, the Ministry informed commodity groups of its plans to move toward this insurance-like program. Shortly thereafter, in May 2019, the Ministry established working groups composed of representatives from the Ministry, Agricorp and the industry, to begin the work of redesigning the Program. The working groups were expected to provide recommendations for the livestock and grains-and-oilseeds sectors and the fruit-and-vegetable sector in December 2019. The Ministry anticipates it will present options to Cabinet in time for the 2020 Ontario budget, and expects to roll out the redesigned Program by January 2021.

Recommendation 2

To ensure that all farms regardless of size have equal opportunities to receive Ontario Risk Management Program (Program) payments, we recommend the Ministry of Agriculture, Food and Rural Affairs improve the current method of calculating Program payments to better reflect the differences in farming operations across the province, for example by establishing different calculations based on the size of farming operations.

Status: In the process of being implemented by January 2021.

Details

During our 2017 audit, we found that the Ontario Risk Management Program's (Program) method of basing payments on the industry-average cost-of-production had benefited large farms more than smaller farms. This is because large farms can more easily achieve cost-efficiencies due to greater economies of scale. We reviewed Program participation information and found that while farms with gross receipts over \$1 million make up only 20% of

all farms in Ontario, they received 60% of all Program payments between 2011 and 2015.

We also reviewed a sample of payment files to determine whether the industry-average cost-of-production used to calculate the payment in fact reflected the actual cost of production for each individual farm. In over a quarter of the files we reviewed, farmers reported lower production costs than the industry average. For example, one farmer received \$827,000 in payments in 2015. If the payments were based on the farmer's actual costs, no payment would have been triggered.

As discussed in **Recommendation 1**, at the time of our follow-up, the Ministry was in the process of redesigning the Program from an industry-average-based payment to a more insurance-like program, where insurance liability and premiums would reflect individual farm production. The Ministry will consider design recommendations from the working groups (discussed in **Recommendation 1**) in December 2019 and implement the redesigned Program by January 2021.

Recommendation 3

To ensure that eligible livestock farmers receive correct Ontario Risk Management Program (Program) payments, we recommend that Agricorp:

- *identify the types of livestock business arrangements that impact farmers' Program eligibility;*

Status: Fully implemented.

Details

In our 2017 audit, we noted that eligibility rules regarding ownership of cattle for the Ontario Risk Management Program (Program) were not clear. Because of various business arrangements available to cattle farmers, the party with legal title to cattle is not always the same party who bears the risk of raising those cattle. At the time of our 2017 audit, Agricorp had not identified the types of cattle business arrangements that affect farmers' eligibility for the Program. We noted in our audit that from 2011 to 2017, Agricorp identified 15 farmers who

received a total of over \$2 million in overpayments due to unclear eligibility rules.

In March 2018, Agricorp notified cattle farmers that they must report to Agricorp all livestock business arrangements that could affect their eligibility for payments. Agricorp also distributed a memorandum to its staff in January 2019 that identified four different types of ownership arrangements that posed the highest risk of eligibility confusion and clarified which party would be eligible for Program payments.

Agricorp updated its underwriting and claims processes in March 2019, and provided training to staff on the new processes in April 2019. We compared the updated procedures to those that were in place at the time of our audit, and noted that they provided more guidance to staff when a farmer indicates that they are involved in one of these arrangements. Agricorp advised us during our follow-up that it plans to continue conducting annual audits to identify any new types of high-risk business arrangements. Agricorp will use the information from the audits to clarify eligibility.

- *further clarify program-eligibility rules for the various types of livestock business arrangements.*

Status: In the process of being implemented by December 2019.

Details

We noted at the time of our 2017 audit that many farmers had interpreted ownership as having legal title to the cattle. In contrast, the Ministry and Agricorp based ownership on who bore the risks related to raising and selling the cattle. Although the Program Handbook provided to farmers stated that "Agricorp considers ownership, price risk and production risk in determining eligibility," it did not define price risk or production risk.

At the time of our follow-up, Agricorp informed us that it will not make the memorandum identifying different types of ownership arrangements (discussed in **Recommendation 3**, action 1) available to farmers, as it believes the responsibility to

assess risk lies with its staff. Agricorp informed us that it is the staff's responsibility to ask farmers the correct questions, and that it does not want to provide farmers with details on determining their own Program eligibility. Instead, Agricorp will publish the definitions of price risk and production risk on its website by December 2019 to clarify the eligibility rules regarding ownership of cattle. These definitions will also be included in letters that will be sent to farmers in March 2020 asking if they wish to re-apply to the Program.

Recommendation 4

We recommend that Agricorp identify those farmers involved in livestock business arrangements, and ensure that its application-review processes considers the impact of such arrangements when calculating payments.

Status: Fully implemented.

Details

We noted at the time of our 2017 audit that Agricorp had not identified which farmers were involved in business arrangements that could affect their eligibility for the Ontario Risk Management Program (Program). We analyzed income-tax data from the Canada Revenue Agency and identified nearly 200 farmers who reported income and/or expenses from such arrangements from 2011 to 2016. We noted that this information could indicate additional overpayments that had not been identified.

For the 2018 program year, Agricorp updated its process for selecting which farmers to audit in order to focus more on those farmers whose complex business arrangements had more potential to lead to incorrect payments. At the time of our follow-up, Agricorp had reviewed 244 farmers' files and identified 39 new farmers with complex business arrangements.

As noted in **Recommendation 3**, Agricorp updated its underwriting procedures in March 2019. We reviewed the updated procedures, and noted that they required staff to review a report listing of all farmers who self-identified

as being in one of these arrangements. Beginning April 2019, staff were required to contact the farmers to obtain details of their financial arrangements and make the necessary changes to their Program enrolment, for example, the number of cattle enrolled in the Program.

Recommendation 5

We recommend that the Ministry of Agriculture, Food and Rural Affairs review and update the design of the Ontario Risk Management Program in light of the strategies it has identified for the program to ensure that it operates in a manner consistent with the objectives of other business-risk-management programs.

Status: In the process of being implemented by January 2021.

Details

In our 2017 audit, we noted that the Ontario Risk Management Program (Program) was originally intended to complement the existing business-risk-management programs that were jointly funded by the federal and provincial governments—AgriStability, Production Insurance and AgriInvest. However, the federal government did not support or provide additional funding for the Program because, unlike the other programs, it only provided protection for a specific type of risk and was not based on the performance of the entire farm operation.

To help provide farmers with more comprehensive coverage, the Ministry's original intent was for the Program to complement AgriStability, which is based on the overall financial situation of the farm. To achieve this goal, farmers were originally required to enrol in AgriStability in order to participate in the Program. The Ministry, however, removed this requirement in 2015. Between 2011 and 2015, participation in AgriStability decreased by nearly one-third, resulting in less coverage being available for these farmers. At the time of our audit, the Ministry had estimated that removing this requirement had resulted in \$6 million to \$15 million less in federal funding to Ontario farmers.

As noted under **Recommendations 1 and 2**, the Ministry is in the process of redesigning the Program and expects to roll out the new Program in January 2021. According to the Ministry, the redesigned program will adhere to the objectives of other business-risk-management programs, as it will function in a similar manner to Production Insurance. At the time of our follow-up, the Ministry had not yet consulted with the federal government to determine whether it would support or provide funding for the redesigned insurance-like program. In the interim, the Ministry has not re-established the requirement for farmers to enrol in AgriStability in order to be eligible for the Program.

Low Farmer Participation Limits AgriStability's Capacity to Provide Support

Recommendation 6

To ensure that all participants, regardless of type of farming operation, have an equal opportunity to receive AgriStability payments, we recommend that the Ministry of Agriculture, Food and Rural Affairs work with the federal government and other provincial and territorial governments to review and revise AgriStability rules as necessary to take into account the differences in farming operations and practices across the different sectors.

Status: In the process of being implemented by April 2023.

Details

During our 2017 audit, we noted that, from 2013 to 2015, more grains and oilseed farmers incurred large declines in income than cattle farmers, but fewer of them received AgriStability payments. Our analysis of income-tax data from those years found that 40% of grains and oilseed farmers had experienced a drop in net income of 30%, compared with only 28% of cattle farmers. However, we noted only 10% of the grains and oilseed farmers that applied for AgriStability during that period received payments, compared with 21% of the cattle farmers.

Grains and oilseed farmers were more likely to be affected by the program's "limiting rule," which stipulates that if a farm's eligible expenses are less than its average net income, the AgriStability payment is based on the lower eligible expense amount. Because their main expenses—the purchase and maintenance of equipment—were not eligible under AgriStability, grains and oilseed farmers were more likely to have lower expenses. If their expenses were low enough, grains and oilseed farmers did not trigger an AgriStability payment.

In July 2017, the Federal, Provincial, Territorial Ministers and Deputy Ministers of Agriculture agreed to undertake a review of the national suite of business-risk-management programs and established an expert panel to provide guidance and recommendations to improve AgriStability's effectiveness.

In April 2018, the federal, provincial and territorial governments implemented a new agriculture policy framework called the Canadian Agricultural Partnership, which brought about changes to AgriStability. Specifically, the amount of eligible expenses used to calculate the AgriStability payment cannot be less than 70% of the farm's average net income. This change was expected to lessen the effect of having fewer eligible expenses, though the Ministry indicated that it will not be able to confirm the effect of this change until there has been time to gather new data. The Ministry informed us it will begin collecting this information in September 2019.

The minister and deputy minister group met again in July 2019 to discuss the expert panel's recommendations for changes to AgriStability and are expected to decide on changes at their July 2020 meeting. The Ministry advised us that changes would likely not be implemented until April 2023 when the next agricultural policy framework is released.

Recommendation 7

To ensure that farmers receive the appropriate level of support for their losses under AgriStability, we recommend the Ministry of Agriculture, Food and Rural Affairs (Ministry) work with the federal and other provincial and territorial governments to:

- establish and clearly communicate to farmers the level of risk that farmers are expected to manage themselves;

Status: Little or no progress.

Details

We noted in our 2017 audit that changes to AgriStability rules in 2013 resulted in less coverage and lower payments to farmers. One of the changes, the “limiting rule” discussed in **Recommendation 6**, had negatively affected over half of the more than 44,000 applications since 2013, resulting in farmers either receiving lower payments than they would have prior to the changes, or none at all. On average, these farmers received 50% less in payments than they would have prior to the changes.

We noted in our audit that the changes were intended to provide support only for “disaster-level income declines.” However, a 2016 report by the Canadian Federation of Agriculture stated that AgriStability should not be limited to disaster support, and that farmers generally considered a 15% drop in income to be significant.

In March 2019, the federal government, on behalf of the provincial and territorial governments, led a two-day educational discussion on risk management with commodity groups, agricultural consultants and academics. The discussion concluded that the risk-management information available to farmers was disjointed and insufficient, and, as a result, they needed to find additional ways to disseminate risk-management information to farmers. At the time of our follow-up, the Ministry advised us that the federal, provincial and territorial governments anticipate they will continue to address the issue of educating farmers about risk management. However, they were unable to provide any timelines on when they expected further work to be completed.

- determine how the 2013 AgriStability changes affect the program’s ability to contribute to the goals of the Growing Forward 2 Framework of a profitable, sustainable, competitive and innovative agricultural industry.

Status: In the process of being implemented by January 2020.

Details

During our 2017 audit, we reviewed AgriStability participation from 2011 to 2015 and found that, on average, 16% of farmer applicants paid their annual application fees, but did not submit any of the required documentation to be eligible for payments. Neither the Ministry nor Agricorp had determined why these farmers did not submit their required forms, but advised us that it was likely because the farmers did not expect a payment and did not want to spend time or money on completing the paperwork.

In January 2018, a mid-term review by the expert panel discussed in **Recommendation 6** noted that key challenges continue with AgriStability, including declining participation and difficulties in meeting service standards. The panel referred to the results of a 2016 survey, conducted by Agriculture and Agri-Food Canada, which stated that the top reasons farmers declined to participate in AgriStability were the insufficient benefits and the high administrative burden.

The working groups are expected to present a final report on performance indicators for the 2016 program year to the federal, provincial and territorial government group by January 2020, which will provide further information on the impact of the changes made to AgriStability in 2013. The Ministry anticipates that these findings will be used in the development of the new AgriStability program discussed in action item one of **Recommendation 7**.

Recommendation 8

To enable farmers to reasonably estimate their AgriStability payments, we recommend that the Ministry provide farmers with the information and tools

necessary to enable them to reasonably estimate their AgriStability payments.

Status: In the process of being implemented by April 2023.

Details

In our 2017 audit, we noted that various entities—including the Ontario Federation of Agriculture, the federal internal audit department and the House of Commons Standing Committee on Agriculture and Agri-Food—raised the issue of farmers’ difficulties in predicting if they will receive AgriStability payments. When farmers can predict their payment amount, they can better react to market conditions. At the time of our audit, Agricorp provided details of the various adjustments made to farmers’ reported income and expenses to arrive at their AgriStability payments. However, we noted that the information did not help with predictability because it only discussed general rules and provided information about the specific adjustments after the payment application had already been processed by Agricorp.

In the July 2018 annual meeting of federal, provincial and territorial governments, the expert panel, as discussed in **Recommendation 6**, highlighted the need to address predictability in AgriStability payments. In response to this recommendation, a working group—with members from the federal, provincial and territorial governments—developed a plan to address this issue. In December 2018, the working group presented three options to the federal, provincial and territorial government group. As discussed in **Recommendation 6**, the government group anticipates it will decide on the future direction of AgriStability in July 2020 with changes put into effect by April 2023.

Recommendation 9

To ensure that more farmers receive AgriStability payments in a timely manner, we recommend that the Ministry of Agriculture, Food and Rural Affairs work with commodity groups to determine the reason for low interim payment application rates.

Status: Fully implemented.

Details

We noted in our 2017 audit that AgriStability payments were rarely made to farmers in the same year as the losses that triggered the payments. This is because AgriStability payments are based on income-tax data, and so the payments can only be calculated once a farmer has filed their taxes. We found that in 2015, only 24 farmers, or 1% of farmers who received a payment that year, received their payments by the end of the year. These farmers either had early tax year-ends, or had applied for interim payments.

Interim payments can be made prior to the tax year-end if a farmer is experiencing a serious cash flow problem. These payments are based on half of the estimated AgriStability payment, and the interim payment is deducted from the final payment based on tax information. During our audit, we found that only 1% of farmers had applied for interim payments from 2011 to 2015. At that time, neither the Ministry nor Agricorp had determined the reason for this low interim payment application rate. However, a federal audit of AgriStability found that it may be due to farmers fearing their payments would be clawed back if calculated incorrectly.

Since our audit, the Ministry and Agricorp have undertaken a number of steps to better understand the reasons why few farmers apply for interim payments and to inform farmers about the availability of interim payments:

- In April 2018, the Ministry conducted a jurisdictional scan across Canada to determine whether low uptake with interim payments was a common issue. Six provinces and the federal body that delivers farm support on behalf of certain provinces provided information for this review, which found that interim payments had low uptake in other provinces as well.
- In July 2018, Agricorp also provided information to farmers about the availability of interim payments for AgriStability.
- In January 2019, the Ministry met with industry stakeholders to discuss why interim payments applications were so low. The Ministry

advised us that stakeholders had no concerns regarding interim payments and had no suggestions for changes or improvements. The Ministry has therefore determined that no further work is necessary to determine the reason for low interim payments.

We also recommend that Agricorp strengthen its processes to improve the accuracy of interim payments.

Status: Will not be implemented. The Office of the Auditor General continues to recommend that Agricorp work to identify a method to improve the accuracy of its interim payments because manual workarounds increase the risk of human error, including errors unlikely to be identified as they may not relate to overpayments.

Details

During our 2017 audit, we noted that Agricorp used Excel to manually calculate interim payments, which increased the risk of error. Our review of interim payments between 2011 and 2015 found two examples where errors and delays in payments were due to errors from using this manual process. In one example, a farmer received \$6,000 less than he was eligible for, and in another, a farmer's interim payment was held up by two months because Agricorp staff overlooked the calculation of the application fee.

In 2016 and 2017, 37 farmers received interim payments totalling \$3.8 million. In October 2018, Agricorp reviewed these interim payments and found that five of the 37 farmers were overpaid by a total of \$46,000. Agricorp found that these five overpayments were caused by farmers overestimating their expected losses, and not by the manual calculation process. Agricorp, therefore, concluded that no changes were required to strengthen its processes to improve the accuracy of interim payments. However, we note that neither of the errors we identified at the time of our audit would have been identified in Agricorp's review of interim payments.

Ministry Poorly Equipped to Provide Support during Crises

Recommendation 10

To ensure that the Ministry of Agriculture, Food and Rural Affairs (Ministry) provides timely and appropriate support to farmers in a crisis, we recommend the Ministry:

- *develop a crisis-response plan that outlines roles and responsibilities for designing and delivering crisis programs, provides criteria for when support will be provided and to whom, and identifies potential sources of funding;*

Status: Little or no progress.

Details

Between 2007 and 2017, the Ministry created nine one-time programs to provide financial support to farmers during crises, in addition to the existing suite of business-risk-management programs. We found that this occurred because support provided through the existing programs was determined to be inadequate during emergencies.

We noted during our 2017 audit that the Ministry did not have clear criteria to help create emergency programs that specified the costs that would be covered and the level of support that farmers could expect if an emergency occurred. We also noted that existing plans and programs would not be used for market crises, which, according to the Organisation for Economic Co-operation and Development, caused the most serious losses for farmers to which governments had to provide support.

In April 2018, the Ministry developed a disaster monitoring framework to monitor changes in factors that influence the market so that it has a better idea of how to determine the likelihood of a crisis. While the framework identifies considerations such as existing programs and potential partners, the Ministry informed us that it would establish specific criteria to determine the timing of and eligibility for support only when developing disaster recovery programs. This approach is similar to that used by the Ministry in 2008 to provide crisis support to farmers

through the Ontario Cattle, Hog and Horticulture Payment (OCHHP). As we noted in our 2017 audit, one of the main criticisms of OCHHP was that farmers who needed financial support did not receive it because its design (including establishing eligibility criteria) and delivery had been rushed.

In July 2018, the federal agriculture department implemented a new late-participation option for AgriStability, which provinces and territories can trigger in response to significant crisis or income decline among farmers. The federal agriculture department supplied a template for provinces to use in determining when a farmer would be eligible to enrol past deadlines due to emergency scenarios. The Ministry finalized the template on how to trigger the late-participation mechanism in June 2019.

- *work with the federal-provincial-territorial governments to improve the timeliness of the AgriRecovery process.*

Status: Little or no progress.

Details

At the time of our 2017 audit, we noted that Ministry analysis had determined that AgriRecovery would not always provide timely support. Because of this, for example, when the Ontario bee sector faced a higher-than-normal bee mortality rate due to harsh winter conditions in 2014, the Ministry did not follow the AgriRecovery process because of the “lengthy approval process” to assess eligibility and obtain funding from the federal government. Instead, it created a two-year one-time program to provide more timely support to farmers.

At the time of our follow-up, the Ministry indicated that, in December 2018, it conducted an internal review of AgriRecovery. The review confirmed our audit’s finding that timeliness of AgriRecovery was problematic, noting that obtaining data from farmers and Treasury Board Secretariat approval from both provincial and federal governments were time-consuming processes. The assessment concluded that issues regarding the timeliness of AgriRecovery remained, yet when the federal,

provincial and territorial governments decided in July 2017 to review the national suite of business-risk-management programs, they determined not to include AgriRecovery in this review. The Ministry informed us that the federal, provincial and territorial governments wanted to focus the review on changes to AgriStability.

While the Ministry does not have sole control over the delivery of AgriRecovery, it has looked for alternative ways to provide emergency funding to farmers. For example, in 2018 and 2019, the Ministry and Agriculture and Agri-Food Canada provided emergency support to corn farmers who were affected by the presence of a toxic substance created by fungus found in corn.

Overpayments Occur Due to Incorrect and Misleading Information from Farmers

Recommendation 11

To ensure that farm-support payments are accurate and made only to eligible farmers, we recommend that with respect to high-risk applications, Agricorp:

- *require source documentation to support information provided by farmers in their applications;*

Status: Little or no progress.

Details

We noted during our 2017 audit that farm-support payments were made based on financial information, such as income and expenses, reported by farmers mainly through their tax returns. Independent verification, such as sales invoices and purchase receipts, was not required by Agricorp. Between 2012 and 2017, Agricorp’s program audit group, which ensures that farmers receive the correct support payments by requesting supporting documentation from farmers or conducting farm visits to validate information, determined that 31% of audited farmers had been either overpaid or underpaid a total of \$5.6 million. Specifically,

in 2015/16, Agricorp's program audit group found five instances where farmers had submitted false and misleading information to Agricorp in order to receive payments. The audit group determined that the farmers had been involved in a complex financial arrangement with each other and had provided fictitious invoices for feed and cattle sales to Agricorp. At the time of our audit, only one party of these types of arrangements was required to report this partnership to Agricorp.

Since our audit, Agricorp has updated its claims procedures as discussed under **Recommendations 3 and 4**. Agricorp's new claims procedures include more guidance on when additional documentation should be requested when a farmer has indicated that they are in a complex financial arrangement. However, we noted that under the new procedures, Agricorp still requires only one party of the financial arrangement to report the arrangement. All farmers in these high-risk financial arrangements are still not required to provide source documentation to Agricorp during their application.

- *explicitly identify the circumstances when a farm visit is necessary to further validate the information reported by farmers, and track the results of such farm visits.*

Status: In the process of being implemented by March 2020.

Details

At the time of our 2017 audit, farm visits were not required to verify information submitted for the Ontario Risk Management Program or AgriStability. Farm visits were required for farmers applying for Production Insurance payments only in certain situations. For example, a visit may be triggered if it was an unusually large claim compared to others in the same area, or if the farmer had applied for frequent claims. We also noted that because Agricorp did not systematically track its field visits, it was unable to determine how many claims had been validated by field visits.

In March 2019, Agricorp updated its procedure for conducting visits for farms enrolled in

AgriStability and the Ontario Risk Management Program to include reasons for a visit. However, the procedure does not explicitly identify specific circumstances when a farm visit would be required in order to review concerns or gather additional information. After updating its procedure, Agricorp has conducted four visits since April 2019.

Agricorp is also in the process of updating the IT program used to track farm visits under the Production Insurance program. The new software will include features that indicate when a Production Insurance site visit is required and, in addition, will be able to track these visits. Agricorp expects to implement this new software by March 2020.

Agricorp's Aging IT Systems Costly and Susceptible to Errors

Recommendation 12

To ensure that its IT renewal project is completed in a timely manner, we recommend that Agricorp work with the Ministry of Agriculture, Food and Rural Affairs to formally determine the funding and timelines for its IT renewal project and seek the necessary approvals to complete all phases of the project.

Status: Little or no progress.

Details

In our 2017 audit, we noted that Agricorp first determined the need to replace its information technology (IT) systems in 2005. In 2007, it developed a five-year phased-in approach to renew its IT infrastructure, but the plan did not include a total cost. In 2010, Agricorp revised its IT renewal strategy and requested funding for two of three phases. Phase one consisted of adding a unique identifier to link farmer information across the various information systems. Phase two, which is ongoing, involved replacing the 25-year-old system used for the Production Insurance program mentioned in **Recommendation 11**. We noted at the time of our audit, however, that Agricorp did not have a plan to replace another IT system, Zephyr, which it uses to process AgriStability payments. We

also found that Agricorp did not have an estimate on the total cost of the entire IT renewal process.

Following our audit, in June 2018, Agricorp created an inventory of the over 40 IT systems it uses to deliver farm-support programs. The inventory includes a risk ranking for each system based on specific criteria, as well as the expected number of years the application can continue to be used. Finally, the inventory also indicates whether Agricorp has requested or obtained funding for each IT system's renewal. The inventory is updated twice a year and is presented to Agricorp's board of directors. However, we noted that despite Agricorp determining in 2007 that Zephyr was "inadequate, unstable, inefficient, and outdated," the new inventory indicates that it has another five years of use. Agricorp has determined that Zephyr is not a priority and does not have a timeline for when a business case will be developed for its replacement. Agricorp informed us that due to changes made to the Zephyr program in 2012 prior to our audit, and changes made in 2017 during our audit, the risk of using the program had been reduced and was no longer the priority of its IT renewal. We noted, however, in **Recommendation 9** that Zephyr, not being able to process interim payments, increases the risk of human error.

Agricorp's Board Did Not Receive Documented Briefings from Management on the Results of Program Audits

Recommendation 13

To ensure that Agricorp's board of directors is fully informed about significant risks that affect Agricorp's delivery of farm-support programs, we recommend that Agricorp's program audit group report regularly to the board regarding its annual audit plan, its audit findings, and the implications of such findings for Agricorp's delivery of farm-support programs.

Status: Fully Implemented.

Details

As noted under **Recommendation 3**, at the time of our 2017 audit we noted that Agricorp's program audit team had found cases of incorrect payments being made due to complex eligibility rules, as well as certain farmers submitting false and misleading payments. In 2015, Agricorp's program audit group engaged the Ontario Internal Audit Division's Forensic Investigation Team to review the case involving the group of farmers who provided false and misleading information to ensure that their findings were accurate. Despite the forensic investigation team agreeing with the program audit team's conclusions, we noted that there was no evidence Agricorp's board of directors had been informed of this case. In fact, the board was unaware of the program audit team's findings or annual reports, which included annual trends, emerging risks, and recommendations. Instead of reporting directly to the board, the program audit team reported only to Agricorp's senior management and Chief Financial Officer.

In response to our recommendation, Agricorp's program audit team presented its first reports to the board's Financial and Audit Committee in October 2018 and April 2019. We reviewed the program audit team's presentation, and noted that it included a summary of work completed, payment changes, overall trends and findings, and highlighted other trends. Agricorp plans to continue these presentations to the board and the Chief Financial Officer twice a year.

Impact of Programs Not Fully Known or Measured

Recommendation 14

To ensure that performance indicators are tied to overall goals, we recommend that the Ministry of Agriculture, Food and Rural Affairs work with Agriculture and Agri-Food Canada, Agricorp and the Ontario Soil and Crop Improvement Association to:

- *review and make necessary changes to its performance indicators to ensure that they are tied to overall program goals;*

Status: In the process of being implemented by April 2023.

Details

At the time of our 2017 audit, the Ministry and Agricorp had various performance measures established for their farm-support programs. We noted, however, that these measures were mostly based on program-specific outputs, such as the number of payments made, instead of being tied to the goals of the framework, which were to “achieve a profitable, sustainable, competitive and innovative industry.” We also noted that while the suite of farm-support programs were intended to work together to provide a comprehensive support system, the performance measures and reviews completed by the Ministry between 2012 and 2017 focused on individual programs in isolation.

The working group made up of members from the federal, provincial and territorial governments noted in a February 2018 presentation that outcome-based indicators are lacking from the suite of programs, and that the performance measurements do not tie into the outcome of the Canadian Agricultural Partnership—the five-year policy framework developed by the federal, provincial and territorial governments in April 2018 that governs the delivery of most farm support programs in Canada. As a result, the Ministry was given direction by the government group to develop objective-based performance measurements for the next policy framework which is expected to be implemented in April 2023, when the new framework is established.

- *regularly collect and analyze information about the impact of support programs on Ontario farms to help adjust programs on an ongoing basis.*

Status: In the process of being implemented by April 2023.

Details

We noted at the time of our 2017 audit that the Ministry was unable to determine whether the Ontario Risk Management Program had achieved the desired outcome, and in fact, the result of a 2016 review indicated that “there is no credible evidence to substantiate the claim that the Program contributes to increased agricultural sector investment.”

We also found that the Ministry had conflicting sources of information regarding the impact of its programs. For example, a 2017 survey done by Agricorp found that 58% of respondents had more confidence to invest in their farm’s business improvements because they participated in AgriStability; and that 65% responded the same increased confidence came from participation in the Ontario Risk Management Program. However, these results were inconsistent with a February 2016 report by the Canadian Federation of Agriculture, which found that farmers’ confidence in business-risk-management programs was declining. In addition, a 2014 survey by the Ontario Federation of Agriculture indicated that 69% of farmers felt the business-risk-management programs did not meet their needs. Finally, our own survey done at the time of our audit of farmers indicated that only 24% and 35% believed AgriStability and the Ontario Risk Management Program, respectively, were effective in helping them manage their risks.

As noted in **Recommendations 1 and 2**, the Ministry is in the process of redesigning the Ontario Risk Management Program, which it expects to implement by January 2021. The Ministry indicated that it will develop performance measures for this program by that time. As noted in action item one of **Recommendation 14**, the Ministry expects to move forward with outcome-based performance measures for the business-risk-management suite of programs by April 2023, with the rollout of the new agricultural framework.