MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS

AgriCorp

BACKGROUND

3.01 AgriCorp, a corporation without share capital, is an agency of the Ontario Ministry of Agriculture, Food and Rural Affairs. Established by the *AgriCorp Act, 1996*, its objectives are to administer plans of crop insurance as well as other programs related to the agriculture and food industries. The most significant of these activities is the administration of the Ontario Crop Insurance Fund and the Market Revenue Program.

The Ontario Crop Insurance Fund, established in 1966 and formerly administered by the Ontario Crop Insurance Commission, operates under the *Crop Insurance Act (Ontario)*. Crop insurance provides farmers with financial protection against yield reductions due to natural events such as drought, flooding and plant disease. Farmers pay half the cost of crop insurance premiums, and the provincial and federal governments pay the other half.

The Market Revenue Program was established by an agreement between the governments of Canada and the provinces and has been in operation since April 1, 1991. The Program protects farmers against reduced income caused by low commodity prices for certain designated crops. The provincial and federal governments share premium funding for this program equally.

The administrative costs of operating the Ontario Crop Insurance Fund and the Market Revenue Program are funded equally by the province and the federal government. The Corporation maintains a General Fund through which all administrative expenses and associated government revenue contributions flow. On a cost recovery basis, a number of other activities are also funded through the General Fund, such as the Ontario Whole Farm Relief Program.

Summary of Fund Balances and Activities for the Year Ended March 31, 2000
($ millions)

	General Fund	Ontario Crop Insurance Fund	Market Revenue Program	AgriCorp Total
Revenue	16.4	86.2	26.9	129.5
Expenses	(16.5)	(38.3)	(142.0)	(196.8)
Fund Income (Loss)	(0.1)	47.9	(115.1)	(67.3)
Assets	33.9	332.7	237.4	604.0
Liabilities	(32.5)	(10.1)	(64.4)	(107.0)
Fund Balance	1.4	322.6	173.0	497.0

Source: Audited Financial Statements

The Corporation is governed by a volunteer board of directors appointed by the Lieutenant Governor in Council. The board is made up of 16 representatives of the agriculture community and a ministry representative. Board members also make up the crop insurance sub-committee and the audit and finance sub-committee, as well as an executive board that is responsible for AgriCorp's overall operation.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of AgriCorp's operations were to assess whether adequate procedures were in place:

- to ensure compliance with legislation and corporate procedures;
- to ensure that resources were managed with due regard for economy and efficiency; and
- to measure and report on the Corporation's effectiveness in fulfilling its legislated responsibilities.

The criteria used to conclude on our audit objectives were discussed with and agreed to by the Corporation's management.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit, which was substantially completed by January 2000, included discussions with staff and a review and analysis of documentation at the Corporation's head office. We surveyed AgriCorp's board of directors by means of a questionnaire. We also reviewed governance structures and crop insurance programs in other jurisdictions.

Internal audit services are to be provided to AgriCorp by the Ministry of Agriculture, Food and Rural Affairs. However, because no internal audit reports had been issued on AgriCorp since its inception on January 1, 1997, we were unable to reduce the extent of our audit work.

OVERALL AUDIT CONCLUSIONS

3.01 AgriCorp did not have adequate procedures in place to ensure that its activities complied with legislation and corporate procedures. In addition, AgriCorp failed to manage certain of its resources with due regard for economy and efficiency and, on a number of occasions, failed to safeguard funds entrusted to it. Also, AgriCorp did not have the necessary governance and accountability procedures in place to ensure that the Corporation was well managed or to provide the information required to measure and report on its effectiveness in fulfilling its legislated responsibilities. Some of our major findings were as follows:

- AgriCorp undertook a speculative investment initiative to buy and sell bonds on a daily basis in the hope of earning a quick return on the fluctuation of interest rates. This two-week initiative resulted in a loss totalling $325,000 to AgriCorp's General Fund.
- AgriCorp has sought to utilize money from the Ontario Crop Insurance Fund to pay for its administrative expenses which corporate management contended was acceptable practice in the insurance industry. However, legislation prescribes, and a legal opinion confirmed, the allowable uses of the Fund, which do not include administrative expenses. Such expenses are to be paid from AgriCorp's General Fund.
- AgriCorp needed to improve procedures to ensure that the amounts of crop losses claimed were accurate and in compliance with corporate procedures. For example, individuals were allowed to pay insurance premiums after their crops had already been harvested.
- Information technology development was poorly planned, controlled and managed. Since January 1997, AgriCorp has initiated various information technology projects without clear direction, resulting in expenditures of at least $3 million for which it received little or no value.
- AgriCorp engaged several information technology consultants for a number of years without competition. In addition, at the taxpayers' expense, AgriCorp sent consultants on training courses, one of which cost more than $10,000. Consultants should only be engaged if they can bring the necessary skills to the job.
- AgriCorp engaged an investment advisor, without competition, for a minimum annual fee of $400,000. The advice received was of little value as the advisor repeatedly recommended a diversified portfolio that included investments the Corporation was legislatively prohibited from purchasing.
- Through a private insurance intermediary, AgriCorp paid $14.1 million for reinsurance coverage over a two-year period. The intermediary was engaged without competition. Also, AgriCorp had not prepared a thorough cost/benefit analysis of the potential benefits of reinsurance.

- Both employees and managers often disregarded travel expense procedures as travel claims were approved and paid without proper receipts, which, in some cases, resulted in duplicate payments. Additionally, the travel expense claim process was inappropriately used to purchase major items, thus by-passing purchasing department controls.
- AgriCorp has adopted six considerably different vision statements in the past three years, an indication that it has no clear understanding of its role or objectives. Without such an understanding, it cannot develop measures to assess the achievement of its legislated responsibilities.
- AgriCorp had established a governance structure designed to help direct and manage its affairs. However, members of its board of directors often lacked the necessary information to make informed decisions, and, as noted by a consultant engaged by the board, management provided information to the board in a fashion that appeared to be "forcing or manipulating a decision."

DETAILED AUDIT OBSERVATIONS

COMPLIANCE WITH LEGISLATION AND CORPORATE PROCEDURES

INVESTMENTS

Legislation restricts all of AgriCorp's investments to highly liquid, high-grade money-market instruments, such as federal and provincial bonds, deposit notes issued by domestic financial institutions and other securities approved by the Minister of Finance. As of March 31, 2000, AgriCorp's investments totalled $355 million. AgriCorp does not directly manage the money in the Market Revenue Program fund because, as required by an order in council, this fund is to remain on deposit with the Ministry of Finance.

In September 1999, AgriCorp used money from the General Fund to embark on a pilot project to buy and sell bonds on a daily basis in the hope of earning a quick return on fluctuating interest rates. However, the project was terminated after two weeks because of losses totalling $325,000.

At the time AgriCorp stopped its daily trading initiative, it had a Government of Canada bond that it had purchased for $6.5 million. The fair market value of the bond subsequently declined to $6.2 million, and the bond and its associated losses were inappropriately transferred from the General Fund to the Ontario Crop Insurance Fund. After we brought this matter to the attention of management in January 2000, the Ontario Crop Insurance Fund was reimbursed by the General Fund and all losses were assumed by the General Fund.

AgriCorp also inappropriately used funds held for the Ministry of Agriculture, Food and Rural Affairs in its daily trading strategy. At the time the $6.5 million bond was purchased, AgriCorp only had $3.6 million of its own money in the General Fund. The remaining $2.9 million came from funds held for the Ministry to make payments under the Ontario Whole Farm Relief Program. The agreement between AgriCorp and the Ministry stated that the investment policy

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applicable to these funds would be one that was risk-averse and limited to investments in Canadian money-market and Canadian fixed-income instruments. On another occasion, in May 1999, AgriCorp invested Ontario Whole Farm Relief Program Funds in a long-term bond that was sold in September 1999 for a loss of $61,000. By using these funds inappropriately, AgriCorp violated its fiduciary responsibility.

AgriCorp has a buy and hold to maturity strategy for long-term investments in the Ontario Crop Insurance Fund. These investments are to be sold if there is a need to meet indemnity obligations. However, in June and October 1999, AgriCorp sold a total of three long-term bonds for $19.5 million. AgriCorp had purchased these bonds for $20.7 million for a total capital loss of approximately $1.2 million. The proceeds of the sale were reinvested in similar securities, so over the life of the new securities, up to 27 years, the Fund will eventually recoup these losses. However, at the time of the sale, there was no need to sell these investments to meet indemnity obligations.

In the use of the resources entrusted to it, cited above, AgriCorp acted without proper authorization or adequate monitoring and reporting. In this connection, we noted the following:

- The Corporation's board had not approved the speculative trading strategy. We were informed that management had obtained verbal approval to proceed from two of the three members of the board's audit and finance committee. However, this committee functions in an advisory capacity only and did not have the authority to authorize the strategy.
- AgriCorp had both a strategic and a tactical committee, comprising board members and management representatives respectively, to monitor investment policy and trading activity. However, monitoring was ineffective since neither of these committees ever met regarding the speculative daily trading activity.

Recommendation

To ensure that proper controls are in place to safeguard investments, AgriCorp should:

- **engage only in investment strategies that comply with corporate procedures and the requirements of formal agreements; and**
- **establish and ensure compliance with appropriate procedures to monitor investment activities.**

Corporation Response

AgriCorp acknowledges that poor judgment was exercised in connection with the daily trading pilot project.

Over the two-and-one-half year period since AgriCorp put in place an investment strategy for the Ontario Crop Insurance Fund, investment results have modestly exceeded the external benchmark for all similar Canadian bond portfolios. AgriCorp has managed the Fund to earn a competitive rate of return for its stakeholders.

The AgriCorp board of directors approved a general fund investment strategy at its meeting of March 27, 2000 that complies with all the requirements of the* AgriCorp Act, 1996. *Investment duties have been shifted to the AgriCorp Finance Department. The AgriCorp board has assumed the investment monitoring duties of the tactical and strategic investment committees. The board has established new procedures and controls and tightened existing ones.

FUND ADMINISTRATION

AgriCorp administers the Ontario Crop Insurance Fund's $320 million, which is invested in income earning securities. The Fund is made up of crop insurance premium receipts from producers, the province and the federal government as well as accumulated interest on its investments. Since its inception, the Fund has generated interest income of more than $125 million. The only expenditures that can be paid out of the Fund are insurance contract indemnity payments, the repayment of any loans and reinsurance expenses.

The federal and provincial governments share equally the costs of administering the crop insurance program. Their contributions are deposited in AgriCorp's General Fund, from which administrative expenses are to be paid. AgriCorp and the Ministry annually negotiate a budget for administrative expenses, and the Ministry has instructed the Corporation to operate within that budget.

According to a Memorandum of Understanding with the Ministry, AgriCorp is responsible for maintaining the integrity of each fund that it administers. However, primarily due to budget pressures, AgriCorp has sought to utilize interest earnings from the Ontario Crop Insurance Fund to pay for its administration expenses. For example:

- In the 1997/98 fiscal year, AgriCorp proposed to remove the $10.1 million of interest and investment income earned during the year by the Ontario Crop Insurance Fund and transfer this money to the General Fund. AgriCorp argued that the Ontario Crop Insurance Fund was not entitled to the interest earned from its investments.
- AgriCorp charged investment administration costs to the Ontario Crop Insurance Fund. Administration costs are a federal-provincial government responsibility and are not to be paid from funds that have accumulated to indemnify Ontario farmers for their future crop losses.
- Pursuant to an agreement between AgriCorp and the federal and provincial governments, the Corporation also charged information technology expenses to the Ontario Crop Insurance Fund. By charging administrative costs to the Ontario Crop Insurance Fund, AgriCorp would forgo millions of dollars worth of federal-provincial funding that Ontario farmers would eventually have to pay. This is because administration costs are funded 50-50 by the two levels of government while funding for crop insurance is shared 25-25-50 among the federal and provincial governments and Ontario farmers respectively.

AgriCorp presented legal justification for the removal of the interest earned by the Ontario Crop Insurance Fund and for charging administration costs to the Fund. Consequently, we requested that outside counsel be engaged to review AgriCorp's interpretation of the legislation. The resulting legal opinion clarified the position that Ontario Crop Insurance Fund interest cannot be used for administrative purposes. Consequently, due to the transactions previously noted, as of March 31, 1999, the General Fund owed the Ontario Crop Insurance Fund a total of $2.1 million. Since the legislation allows for interfund loans, interest should be paid on these interfund transactions. Monies intended for crop insurance should not be used to finance the operations of AgriCorp.

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Recommendation

To ensure the integrity of all funds under its stewardship and to ensure that no fund benefits at the expense of another, AgriCorp should:

- **ensure that the Corporation's activities are legislatively sound;**
- **implement policies for interfund transactions, including the payment of fair rates of interest on any interfund loans; and**
- **review administrative funding arrangements to properly deal with funding pressures.**

Corporation Response

Since AgriCorp was established, management has sought clarification of the legislation concerning the use of Crop Insurance Fund interest earnings.

In 1998/99, in good faith, AgriCorp obtained legal advice and entered a three-way agreement between itself, the Ontario Ministry of Agriculture, Food and Rural Affairs, and the Department of Agriculture and Agri-Food Canada, allowing Crop Insurance Fund access for one specific purpose for a defined period of time. AgriCorp accessed the Fund under the provisions of the three-way agreement for $1.4 million. An additional $0.7 million was deducted for external investment management. AgriCorp subsequently accepted outside counsel's position and has returned a portion of the funds and made provision to return the balance with interest. AgriCorp has made provision for the payment of fair rates of interest on interfund transactions and will formally document the policy.

In future, AgriCorp's recourse will be to the Ministry and Agriculture Canada for administrative funding. User fees might augment the two primary sources.

INSURANCE CLAIMS

Crop insurance protects producers from reduced crop yields and losses caused by natural events such as drought, excessive rainfall, flood, frost, hail, insects, plant disease and wind. For the 1999/2000 fiscal year, over 39,000 contracts for 53 commercially grown crops provided $1.2 billion worth of insurance to producers. Crop insurance is generally based on the average yield for each crop grown by individual producers. When the harvested yield is less than the guaranteed yield due to an insured cause, the producer is entitled to make a claim to AgriCorp and be reimbursed for the difference between the two yields.

We found that procedures were inadequate to provide the information necessary to determine whether the amounts of crop losses claimed were accurate and allowed by legislation. Specifically, we noted:

- The *Crop Insurance Act (Ontario)* states that "AgriCorp shall not enter into a contract of insurance with a person to insure an agricultural crop or a type of perennial plant if the contract insures less than the entire crop..." The legislation is intended to ensure that producers do not divide their land and separately insure smaller units. Multiple crop insurance contracts would increase the probability of receiving an indemnity payment as high yielding areas would not be offset against low yielding areas when all areas are totalled to determine if an indemnity should be paid. However, for the 1999/2000 fiscal year, AgriCorp implemented a program termed Optional Unit Coverage, which allowed producers to purchase separate insurance contracts for the same crop planted in different locations. For the 64 producers that participated in this program, AgriCorp made claim payments of $439,000, which was $197,000 more than if each of these producers had insured crops with one contract.

  AgriCorp received a legal justification for this program stating that all crops must be insured, however, different factors may be applied to different units within the umbrella policy. Also, AgriCorp has stated that the program will not cost the Ontario Crop Insurance Fund more because additional deductibles are to be applied. However, in the first year, this program cost the Fund an additional $197,000 in indemnities for only 64 producers. Also, if the program is actuarially sound, it would not monetarily benefit producers and, if it is not actuarially sound, there is increased risk exposure to the Ontario Crop Insurance Fund. AgriCorp intends to offer this program again in the 2000/01 fiscal year.

- AgriCorp sets application, acreage reporting and premium payment deadlines for the various crops insured. In the majority of cases, the premium payment deadline is set 10 days after planting. However, for some crops such as green beans, green peas, processing tomatoes, sweet corn, seed corn and flue-cured tobacco, AgriCorp allowed premium payments to be remitted by producers after the harvest.

  For example, a premium payment totalling $210,000 on behalf of 163 seed corn producers was submitted on November 25, 1999, well after the harvest. Normally, for insurance coverage to be in effect, premiums must be submitted before the harvest. We question the prudence of allowing some producers to pay their premiums after the harvest, especially in light of the fact that AgriCorp was enforcing the premium deadlines for producers of other crops.

- In June 1999, the board's crop insurance committee passed a motion to cancel the insurance contracts of forage producers who did not report acreage and pay their premiums by the deadline date. Staff attempted to enforce the premium deadline of May 1, 1999. On July 12, 1999, AgriCorp informed the delinquent producers that their insurance coverage for 1999 was cancelled for not remitting the premium before the deadline date.

  Because it received complaints about the deadline enforcement, the crop insurance committee instructed staff to personally visit the producers whose insurance had been cancelled and offer them another opportunity to insure their 1999 crops. Of the producers contacted, 28 took insurance, which eventually resulted in AgriCorp paying 17 producers' claims totalling $40,000. This undermines the enforcement efforts of staff and is contrary to the committee's own approved policy for insurance cancellation.

- The number of insured acres is one factor used to calculate the amount of loss and the corresponding indemnity payment. We noted that AgriCorp did not require claims adjusters to actually measure the acreage of a damaged crop prior to settling a claim. Adjusters visually inspected damaged crops and determined on that basis whether a producer's reported damage was reasonable. In 1999, AgriCorp kept track of the reasons for any indemnity claim adjustments. In the 38 cases where adjustments were made due to acreage being measured, the claims amount paid to producers was reduced by $250,000. This illustrates the importance of actually measuring the acreage for damaged crops.
- If a producer does not achieve a guaranteed yield, an indemnity is normally paid for the difference between the actual yield and the guaranteed amount. However, we noted situations where producers could receive indemnities even when they had no losses. For example, claims for forage crops were based on a computer model that considered soil mixture, sunshine, temperature and rainfall information to simulate forage growth and arrive at an expected yield. Rainfall measurements were provided to AgriCorp by the individual producers. Indemnities were determined by comparing guaranteed yields to model-generated yields rather than actual ones. Consequently, there is a risk that producers could receive indemnity payments even if they had no actual loss, and actual losses could go uncompensated if the model-generated yields showed no losses.

Recommendation

To ensure that the proper indemnity payments are made in compliance with legislation and corporate policy, AgriCorp should:

- **manage the Optional Unit Coverage Program to ensure that there is no additional risk exposure to the Ontario Crop Insurance Fund;**
- **equitably enforce the deadline dates for insurance applications and premium payments on all crops;**
- **direct insurance adjusters to measure the acreage related to any claim for crop loss or damage; and**
- **reassess procedures as necessary so that indemnities are paid only when actual yields are less than guaranteed yields.**

Corporation Response

Optional Unit Coverage was offered on a limited pilot project basis. Premium rates were established with higher deductibles, so that, over many years, the total claim payout will not exceed what it would have been had each producer insured with one contract. If the project advances beyond the pilot stage, it is AgriCorp's intention to manage it on an actuarially sound basis.

The* Crop Insurance Act (Ontario) *states that "AgriCorp shall not enter into a contract of insurance with a person to insure an agricultural crop or a type of perennial plant if the contract insured less than the entire crop..." This is interpreted by AgriCorp and corroborated by ministry counsel as intending to prevent producers from only insuring part of their acreage, that is, high-risk acres. AgriCorp complied with the Act for the Optional Unit Coverage Pilot

Project because customers must offer all acres of the crop for insurance coverage. The pilot project was undertaken with the approval of Agriculture Canada which monitors crop insurance plan design.

Certain processors/commodity boards collect premium, acreage and yield information on AgriCorp's behalf, thereby saving the Corporation administrative expense. Deadline dates are deferred for these customers; however, there is no opportunity for producers to opt out of paying premiums once enrolled. AgriCorp will review the equity of these arrangements.

Although AgriCorp does not measure the actual acreage of every claim, it recognizes the importance of accurate acreage measurement. Acreage is reported to AgriCorp early in the growing season, long before a claim can be predicted. There is no incentive for producers to declare inaccurate acreage. Random audits on a sample basis are conducted each year to protect program integrity. The results of these audits will be reported to the AgriCorp board, which will judge the effect on integrity and may recommend increased measurement.

The forage commodity is administratively difficult, and it is cost-prohibitive to measure an actual yield for all insured growers. Therefore, the current plan uses a yield simulation that provides producers coverage at a reasonable cost to customers and government. No crop insurance jurisdiction in Canada offers an intensively managed forage plan based on individual farm yields. AgriCorp is testing a revised forage plan that features independent rainfall measurements and is much simpler than the simulation.

DUE REGARD FOR ECONOMY AND EFFICIENCY

INFORMATION TECHNOLOGY MANAGEMENT

AgriCorp's Information Technology Department is responsible for providing reliable and secure computer systems and services. The Department's functions include providing support and maintenance for existing business applications, development and testing of new software applications, and management of the information technology infrastructure. The Department's expenditures for the 1998/99 and 1999/2000 fiscal years totalled $12 million.

When AgriCorp was created in January 1997, the Information Technology Department planned to move the Corporation's information technology infrastructure from the government's mainframe computer to an in-house client-server technology. The development of this new client-server technology required considerable expertise. AgriCorp had concerns as to whether the project would meet its needs and, accordingly, engaged a consultant to carry out a strategic information technology review. The consultant found that:

- the staff working on the project lacked the in-depth technical experience to develop the new technology;
- management and the project team had no clear agreement concerning what the business requirements of this project were or how they could be met by the proposed project; and

- the project team had not developed an overall architecture for the system that identified the standards to be followed during construction, the components to be built or how those components would relate to each other.

Despite these concerns, management decided to continue with the project and, in October 1997, developed a two-year strategic plan for moving its information technology infrastructure from the mainframe computer to an in-house arrangement.

We reviewed this project and the other information technology development projects AgriCorp had initiated since January 1997. We concluded that AgriCorp had poorly managed these projects. We had several concerns in this regard:

- We noted that, although AgriCorp prepared a two-year strategic plan for the development of its in-house client-server technology, it had not prepared a detailed business case to evaluate alternatives, assess their benefits and risks, or compare costs to ensure the greatest net benefits. Without a proper business case, the Corporation was not able to demonstrate that taxpayers would receive value for funds expended.
- Instead of a structured approach to achieving predetermined milestones, management consistently searched for and evaluated other application systems while development work continued. As a result, a number of changes in direction were made which jeopardized the success of the project to move AgriCorp's information technology infrastructure in-house.
- In April 1999, AgriCorp decided to shift information technology development back to the government's mainframe environment and redevelop the original software to address user needs. Changing direction to the mainframe environment meant that the hardware purchased and software developed for the in-house technology were no longer useful. As a result, AgriCorp spent at least $3 million for which it received little or no value.
- In November 1999, AgriCorp started to develop a new information technology infrastructure that would allow customers to conduct their crop insurance business through the Internet. AgriCorp undertook this development without the benefit of a detailed business case. The infrastructure for this development may not be compatible with AgriCorp's current environment, highlighting the need for a long-term strategic plan for information technology.
- In addition to the projects described above, AgriCorp purchased two major software applications. These purchases included $60,000 for a number of financial management applications and a $129,000 application to connect field staff to head office. These applications did not provide the required functionality when installed, and consequently, the corporation received no value for the money spent.

Recommendation

To ensure that information technology project management results in the effective execution of plans and achieves results economically, AgriCorp should:

- **develop a long-term strategic plan for information technology that reflects the operational needs of the Corporation;**

- **prepare a proper business case for all potential systems development projects, including an assessment of corporate needs, options available and a detailed cost/benefit analysis of each option;**
- **before proceeding with any system development project, develop and receive board approval for a project plan outlining project deliverables and the nature and timing of milestones to be achieved;**
- **establish a rigorous monitoring program to ensure the achievement of milestones and the satisfactory completion of all system development projects; and**
- **thoroughly evaluate any new software applications before purchasing them to ensure that they meet corporate needs and can be implemented.**

Corporation Response

A three-year strategic plan is currently being prepared. The first draft will be completed by the end of September 2000. In the absence of a board-approved strategic information technology (IT) direction, the project to allow customers to conduct their crop insurance business through the Internet was cancelled.

All IT projects are now required to have a proper business case before they are initiated.

A requirement for board approval of business cases and project plans for projects over $100,000 has been proposed.

A project methodology following the Project Management Institute's guidelines will be followed for systems development projects.

CONSULTING SERVICES

During the 1998/99 and 1999/2000 fiscal years, AgriCorp paid over $1.8 million for consulting services, primarily for information technology projects. We examined a sample of consulting assignments and found that AgriCorp did not have adequate procedures in place to ensure the economic acquisition and proper management of consulting services. For example:

- AgriCorp did not maintain an open and fair process for acquiring consulting services. None of the consulting contracts we reviewed used a competitive process, and AgriCorp was unable to provide documentation justifying or approving any exemptions from a competitive process. Without a competitive process, the Corporation cannot demonstrate that it obtained value for the funds expended.

- We noted that numerous information technology consultants had been retained by AgriCorp or its predecessor organization on year-to-year contracts lasting more than five years, and in two cases for 13 years. In these instances, consultants worked regular hours and were even listed as AgriCorp employees in the government phone book. We noted that these consultants were often assigned on an as-needed basis to work on projects not outlined in their contracts. In addition, these long-term consultants were paid from $325 to $640 per day, which was substantially more than AgriCorp employees earned.

- We noted examples where consultants were engaged by AgriCorp and subsequently sent on training courses paid for by the Corporation. In one case, a consultant who had been retained for nine years was sent on an advanced programming practices course at a cost to taxpayers of $10,345. We question this practice since it is the responsibility of consultants to keep up-to-date with the skills necessary to complete assignments.
- Upon the completion of each consulting assignment, a formal written evaluation should be prepared to assess the quality of the work, whether value for money was obtained and the suitability of the consultant for future work. AgriCorp had not prepared written evaluations for any of the consulting assignments we reviewed.

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Recommendation

To obtain value for funds expended on consultants, AgriCorp should ensure that:

- **consultants are engaged and contracts are renewed through a competitive process and any exceptions are adequately justified, documented and approved;**
- **consultants are not used to perform work other than that specified in their contracts;**
- **consultants have the necessary skills to carry out their work assignments and not be trained at taxpayers' expense; and**
- **assignments are formally evaluated upon completion.**

Corporation Response

The Corporation is well into the process of ensuring that all information technology staff have employee status, eliminating the need for the regular use of consultants.

If consultants are hired in the future, it will be for specific purposes, and they will be monitored for adherence to the specified work tasks defined in the contract.

INVESTMENT SERVICES

In November 1997, AgriCorp hired an external investment advisor without using a competitive process. The advisor was to provide the Corporation with advice on its investments and help write an investment policy statement. The contract stipulated that AgriCorp was to pay a fee based on a rate of 0.3% of the aggregate investment value. In addition, the term of the contract was indefinite as an expiry date was not specified.

During 1998, AgriCorp began to carry out some investment management services in-house and renegotiated the contract with the external investment advisor, again without a competitive process. The renegotiated contract began on December 1, 1998, and expires on December 31, 2000. The renegotiated fees were based on a rate of 0.2% of the investment asset value, with a minimum annual fee of $400,000. The contract could not be terminated without paying the minimum annual fee for the full term of the contract. In addition, the contract provided no remedies for AgriCorp in the event of poor performance by the advisor.

We question paying such a high price for advice that is of little value. The advisor repeatedly recommended a diversified portfolio that would include stocks and other related instruments AgriCorp is not allowed to purchase under the *AgriCorp Act*, *1996*. In February 2000, a consultant's report entitled Crop Insurance Delivery Review also indicated that "AgriCorp could have acquired competitive investment services at substantially less [than the current arrangements] by re-tendering the contract."

The Corporation's Memorandum of Understanding with the Ministry states that AgriCorp "shall manage its investments and borrowing activities under the direction of the Ontario Financing Authority." The primary objective of the Authority is to assist public organizations to borrow and invest money. However, AgriCorp had not contacted the Authority to obtain its advice.

Recommendation

To ensure that necessary investment services are acquired economically, AgriCorp should:

- **assess the need for an investment advisor;**
- **acquire investment services through an open and competitive process;**
- **obtain legal advice regarding the terms and conditions of all major contracts; and**
- **consider obtaining investment advice from within the government.**

Corporation Response

On April 25, 2000, the AgriCorp board of directors approved a recommendation from management to let the investment counselling arrangement lapse. The board, recognizing funding constraints, approved in-house management of investments by staff experienced in insurance company investment procedures. AgriCorp will assess the suitability of investment advice from within government.

REINSURANCE COVERAGE

The Ontario Crop Insurance Fund has paid indemnities to producers cumulatively totalling $930 million over the 31 years since the Fund's inception. Historically, AgriCorp and its predecessor organization, the Crop Insurance Commission of Ontario, paid indemnities due to crop losses from money accumulated in the Fund. In 1998 AgriCorp started a program designed to reduce its risk of unusually high indemnity claims by purchasing coverage from reinsurance companies.

AgriCorp has a potential annual crop insurance liability of $1.2 billion, which would have to be paid if all insured crops completely failed in the same year. AgriCorp reinsured with private insurance carriers to assume crop insurance losses that ranged between $121 million and $242 million, with the Fund paying indemnities above or below these amounts. With respect to reinsurance, we had the following concerns:

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- After evaluating two reinsurance intermediaries, AgriCorp engaged one of them without tender. The intermediary assessed AgriCorp's crop insurance risk, devised a reinsurance plan and placed various portions of the reinsurance with a number of private carriers. AgriCorp paid the intermediary $8 million and $6.1 million for reinsurance in the 1998/99 and 1999/2000 fiscal years respectively.
- AgriCorp prepared a proposal to analyze alternatives and outline its justification for acquiring reinsurance. The proposal indicated that reinsurance would provide long-term viability for the Fund, allow for reduced premium costs to producers and increase investment income by moving into longer term investments. We noted that insurance premium rates for producers had declined in the past two years mainly due to a reduction in commodity prices and indemnity claims. However, AgriCorp could not provide us with evidence that any portion of the rate reduction was the result of the reinsurance program. In addition, the Corporation had not performed an analysis to demonstrate that investment yields had increased because of the reinsurance.
- Using the current reinsurance arrangements, we reviewed crop insurance claims for the 31 years the program was self-insured. Reinsurance is purchased for three levels of claims and a level three (the highest) payout would have occurred only once, in 1979, for $8 million. The cost of level-three coverage was $1.2 million in the 1998/99 fiscal year. Although it is not possible to predict future indemnities, the complexity of reinsurance highlights the need for AgriCorp to obtain the advice of an objective reinsurance expert.
- AgriCorp's board was requested by management to approve the reinsurance arrangements after these arrangements had already been finalized with the intermediary.

Recommendation

To ensure that both its current reinsurance program and any future reinsurance arrangements are economical and appropriate, AgriCorp should:

- **determine whether the reinsurance program has resulted in any direct rate reduction to premiums or increase to investment yields;**
- **consider obtaining expert advice to review the current arrangements and potential options;**
- **prepare a business case for reinsurance that quantifies expected costs and benefits;**
- **acquire any future reinsurance through a fair, transparent, competitive process; and**
- **obtain board approval prior to entering into any future reinsurance arrangements.**

Corporation Response

AgriCorp is committed to ensuring that all decisions regarding the management of the fund, including the purchase of reinsurance, are appropriate for the risk profile of the Ontario Crop Insurance Fund. AgriCorp will prepare a business case that will thoroughly assess all viable options before the next crop year.

Direct premium rate reductions did occur as the result of the purchase of reinsurance. Our actuary, by virtue of reinsurance, reduced the premium load for fund self-sustainability. As a result of purchasing reinsurance, the Corporation changed the investment strategy for the Ontario Crop Insurance Fund to lengthen the term to the maturity of its bond portfolio. This resulted in increased rates of return for the Fund. The specific results of the rate adjustment and the change in investment strategy will be reported to the AgriCorp board of directors.

AgriCorp reviews its reinsurance requirements on an annual basis and adjusts its purchase to reflect changing risk profiles and fund balances. AgriCorp will continue to review its reinsurance needs on a regular basis and will obtain appropriate approvals from the AgriCorp board prior to the actual purchase of reinsurance.

Over 20 reinsurance carriers bid for the Ontario Crop Insurance Fund business each year and the lowest cost providers are selected. Within the next year, AgriCorp will review its brokerage arrangement to determine if the current agreement offers the best value among reinsurance brokerage competitors.

TRAVEL EXPENDITURES

AgriCorp’s employee travel expense procedures indicate that employees should be reimbursed for legitimate work-related expenses and also that the most practical and economical arrangements for travel, meals, accommodation, hospitality and other expenses should be made. We reviewed the travel claims process and noted numerous examples where employees and the managers that approved these claims had disregarded the Corporation’s travel expense procedures. For example:

- In many instances AgriCorp reimbursed expenses that were of questionable business legitimacy. Some examples include reimbursements for golf green fees, flower arrangements for staff, alcohol, gifts for staff and business contacts, umbrellas, and tickets for sporting and cultural events. We also noted several instances where employees personally benefitted by receiving promotional credits as a result of corporate purchases at department stores.
- Employees are required to provide the name and affiliation of each guest receiving hospitality at the Corporation’s expense. However, we noted numerous instances where employees had not done so. We also noted that hospitality, which in our view was overly generous and too frequent, was extended by employees to other employees at the taxpayers’ expense. Reimbursements were made for the meals of employees’ spouses.
- Managers were not adequately scrutinizing travel expense claims as we noted that employees had been reimbursed for expenses without receipts and that the receipts submitted were sometimes inappropriate, such as photocopied receipts and credit card statements rather than original receipts. Consequently, although the amounts were not significant, we found examples of duplicate payments.

Recommendation

To ensure that employees are properly reimbursed only for work-related expenditures, AgriCorp should:

- **not reimburse employees for expenses that are of questionable business legitimacy;**
- **develop clear guidelines outlining when the extension of hospitality at the Corporation's expense is appropriate;**
- **reimburse only those claims for reimbursement that are accompanied by proper documentation; and**
- **ensure that managers approve only travel expense claims that comply with corporate procedures.**

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Corporation Response

AgriCorp will clarify its expense reimbursement policies and ensure that all employees are familiar with them. Management will be required to exercise more care in the review and approval process.

PURCHASING

AgriCorp's purchasing department procedures require that goods are to be acquired using a competitive process or through standing agreements with suppliers. Its procedures also allow for the purchase of goods through petty cash or an employee's travel expense account. However, these two alternatives are to be used for the purchase of goods in emergency situations only.

We reviewed a sample of purchases made by the purchasing department and noted that a competitive process had been undertaken when required and proper documentation was on file. However, we also noted that employees purchased goods using travel expense claims and petty cash even though the goods were not urgently required and should have been acquired by the purchasing department. These purchases included such items as a cellular telephone, calculators, a fax machine, shredders, a microwave oven, a video cassette recorder, a television, a refrigerator, 65 shovels and professional membership fees.

The purchasing department has controls in place to ensure that goods are obtained for the best price, that volume discounts are taken and that exemption from the goods and services tax is received. Consequently, the bypassing of purchasing department controls through the inappropriate use of travel expense claims and petty cash results in higher costs to the taxpayer.

Recommendation

To ensure the economic purchase of goods, AgriCorp should purchase all goods through the purchasing department unless the use of petty cash or employee travel expense claims is justified.

Corporation Response

AgriCorp agrees and will implement this recommendation in conjunction with clarification of expense policies.

MANAGEMENT OF MOVABLE ASSETS

The majority of the Corporation's movable assets were computer hardware and, to a lesser extent, furniture and fixtures. As at March 31, 2000, the cost of recorded assets was over $2 million. We reviewed AgriCorp's management of these assets and concluded that the controls in place to account for and safeguard assets were inadequate and ineffective, as the following observations illustrate:

- The master asset inventory list was last updated in September 1998 and did not reflect subsequent purchases, disposals or reassignments of movable assets. No verification of the accuracy and completeness of this list had been carried out.
- No procedures were in place to ensure that assets were retrieved from employees and consultants that were terminated or otherwise left the Corporation.
- We were informed that one field office was responsible for its own movable asset inventory and that its assets were not reflected in the Corporation's master listing. However, we found that this field office did not maintain a list of its movable assets.

Recommendation

To properly control and safeguard its movable assets from loss, AgriCorp should:

- **continually update its asset inventory list to ensure that the list reflects all purchases, disposals and reassignments of movable assets;**
- **perform a periodic asset verification to identify discrepancies for subsequent follow-up and resolution; and**
- **implement a termination checklist to ensure assets are retrieved from departing employees and consultants.**

Corporation Response

AgriCorp agrees with the recommendations and will implement them. The termination checklist has already been implemented.

MEASURING AND REPORTING ON EFFECTIVENESS

PROGRAM EFFECTIVENESS

AgriCorp's enabling legislation, the *AgriCorp Act, 1996*, states that its objectives are to administer plans of crop insurance in addition to other duties conferred upon it by legislation or agreements between the Ontario and the federal governments. Subsequent to its creation, AgriCorp signed a Memorandum of Understanding with the Ministry, issued two annual reports and produced three business plans, each of which described a considerably different corporate vision.

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Documents Containing AgriCorp Vision Statement

Document	Vision Statement
Memorandum of Understanding	To become a customer focused, industry driven provider of services to agri-food businesses.
1997/98 Business Plan	To be providers of innovative business solutions for Ontario's agriculture and food industries.
1997/98 Annual Report	To enhance the competitiveness of Ontario's agriculture and food industry by delivering high quality agricultural insurance and consulting services utilizing and building on the crop insurance corporate infrastructure.
1998/99 Business Plan	To create and operate a Crown Corporation that utilizes the infrastructure of the crop insurance program as a base to strengthen the competitiveness of Ontario's agriculture and food industry. The corporation is to be operated like a private sector corporation with an autonomous board responsible for corporate leadership: customer service, cost effectiveness and innovation are key success factors.
1998/99 Annual Report	To enhance the global competitiveness of Ontario's agriculture and food industries by providing innovative risk management solutions.
1999/2000 Business Plan	Working together to strengthen Ontario's agri-food industry.

The most current vision statement is "working together to strengthen Ontario's agri-food industry." This statement is vague and far broader than the legislated objectives cited above. Also, the number of different vision statements calls into question AgriCorp's understanding of its objectives. Without a clear understanding of those objectives, the Corporation will have difficulty developing measures to assess the achievement of its goals.

In its 1999/2002 Strategic Plan, AgriCorp outlined key strategies for accomplishing its most recent corporate vision which were to: develop a new organization model; establish new businesses to accelerate corporate growth; increase crop insurance operating efficiency through an integrated information system; develop a superior work team; and increase organizational effectiveness through the creation of effective planning, executing and monitoring processes. However, these key strategies were not linked to the Corporation's overall legislated objectives.

AgriCorp has identified the need for measuring its effectiveness in achieving corporate objectives but has not defined performance measures for doing so. Without a clearly stated corporate vision and strategies linked to its objectives, the Corporation cannot be in a position to measure and report on its performance to the Legislature, the Minister or its clients.

The Corporation has carried out reviews of such areas as customer satisfaction, information related to financial results and call centre usage, but has not related this activity-based information to its corporate objectives and desired outcomes.

Recommendation

To ensure that it is effective in meeting its legislated objectives, AgriCorp should:

- **establish a clear vision statement that reflects its legislated objectives;**
- **develop performance measures that are linked to its established vision and objectives; and**
- **perform the assessments necessary to determine whether its operations are achieving its established vision and related objectives.**

Corporation Response

The AgriCorp board of directors has initiated a review of the Corporation's mandate and vision. Performance measures and assessment details will be established as part of the review.

CORPORATE GOVERNANCE

Good governance is crucial to the successful achievement of corporate objectives. As such, corporate governance is generally defined as the processes and structures put in place to ensure that a government agency is operating effectively, fulfilling its mandate and meeting its objectives, and is being held accountable for the prudent expenditure of public funds. The governance framework for AgriCorp is established by the *AgriCorp Act, 1996.* The relationship between the government and its agencies is defined in directives approved by the Management Board of Cabinet, which require each agency to prepare a memorandum of understanding between the board chair and the responsible minister outlining the roles and responsibilities of each party. Effective governance is a key factor in ensuring that the citizens of Ontario are well served by government agencies.

AgriCorp has a volunteer board of directors comprising 16 members appointed by the Lieutenant Governor in Council on the recommendation of the Minister. Board members also make up an executive board that is responsible for AgriCorp's overall operations. Reporting to the executive board and also made up of board members are a crop insurance committee and an audit and finance committee.

In 1997, the board adopted a model of governance that, in theory, made it responsible for: overseeing the manner in which business was conducted by the Corporation; monitoring management to ensure that all major issues affecting the Corporation were appropriately

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discussed; and obtaining sufficient information to allow informed decisions to be made. However, responses from board members to our questionnaire indicated the following weaknesses:

- Board members as well as senior staff we talked to indicated that the governance structure was not working well. They cited the large size of the board, conflicts among committees and a lack of accountability as major barriers to good governance. Board members also indicated that the lines of authority and communications were unclear, including the roles and responsibilities of individual directors and committees.
- Board members also indicated that they had not been given written explanations of their role and responsibilities, including the expectations, terms and conditions of their appointments. In addition, they indicated that the role and responsibilities of the board chair were not clearly defined.
- The board is dependent on management for information relevant to proposed courses of action requiring board approval. Board members stated that they were often not provided with adequate information upon which to assess strategic issues or alternative courses of action.

  To further illustrate this concern, in February 2000, a consultant reported that "some information of a strategic nature, particularly relating to major information technology decisions, has been provided to the board in a fashion that appears to be forcing or manipulating a decision (insufficient time for consultation and consideration, no commentary, and limited business case information). This is particularly of concern with an executive board with little information technology exposure." The consultant also raised concerns about the ability of AgriCorp's information systems to generate timely, reliable and accurate information for the board to base informed decisions on.
- One principle of good governance is that a board should be prepared to act to ensure that the Corporation's objectives are met and that performance is satisfactory. The majority of board members stated that they acted on a timely basis when presented with clear evidence of a problem. However, many members felt that making decisions was difficult because some board members represented special interest groups rather than the interests of the Corporation.

In normal situations, the board should not be involved in the day-to-day management functions of the Corporation. However, the board had an obligation to assume a more active role since concerns were expressed that the Corporation did not have sufficient funds to meet its obligations, and the board did not have confidence that senior management could rectify the situation.

Recommendation

To improve corporate governance, AgriCorp should:

- **review the board and its committee structure and establish clear lines of communication and accountability;**
- **ensure that management provides timely, sufficient and appropriate information for decision-making; and**

- **periodically assess the effectiveness of the board with respect to governance and the attainment of corporate objectives.**

Corporation Response

The board of directors is committed to modifying its corporate governance structure and processes, which will include the following features:

- ***the development of a new board/committee structure with clear lines of communication and accountability;***
- ***the development of processes to enhance its oversight responsibility; and***
- ***periodic assessment of the board's effectiveness.***

MINISTRY RESPONSIBILITY

The Ministry of Agriculture, Food and Rural Affairs is responsible for AgriCorp and as such is required to monitor its activities to ensure that the Corporation's mandate is being fulfilled in compliance with legislative and government policies. In November 1996, the Ministry developed a Memorandum of Understanding with AgriCorp that outlined their respective roles and responsibilities. These responsibilities include periodic reporting, financial arrangements and the appointment of a senior ministry representative to the AgriCorp board of directors as an ex-officio (non-voting) member.

The financial arrangements in the Memorandum of Understanding stipulate that the records, systems and management practices of AgriCorp shall be kept and maintained in such a manner as will provide reasonable assurance that: assets are safeguarded and controlled; transactions are made in accordance with legislation and agreements; and financial, human and physical resources are managed economically and efficiently and its operations are carried out effectively. However, such procedures were not in place to ensure that a reasonable level of assurance was obtained.

One monitoring mechanism the Ministry could employ to obtain a reasonable level of assurance regarding AgriCorp's financial arrangements is the internal audit process. Pursuant to Management Board of Cabinet directives for the administration of agencies such as AgriCorp, internal audits appropriate to the needs of the agency must be performed on a periodic basis. However, at the time of our audit, no internal audits had ever been performed at AgriCorp.

We have raised a number of major concerns in this report, which, once brought to its attention, the Ministry acted upon. However, we are concerned that such issues had to be brought to the Ministry's attention in this manner. The Ministry had appointed a senior manager to AgriCorp's board to provide oversight on its behalf. This representative is well-positioned to ensure that policies and procedures are put in place by the board to provide assurance that the Corporation operates as intended.

In February 2000, the Management Board of Cabinet issued an Agency Establishment and Accountability Directive to provide a framework of accountability to govern the operation of agencies established by the Province of Ontario. In addition, since the signing of the Memorandum of Understanding, a new minister and deputy minister have been appointed, the chair of the board has changed and the Corporation has engaged a new chief executive officer. Consequently, the Memorandum must be reaffirmed or revised.

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Recommendation

To help ensure that AgriCorp is effectively fulfilling its mandate and that its operations are economic, efficient and in accordance with legislation, the Ministry should:

- **update its Memorandum of Understanding with the Corporation to include any new monitoring procedures and Management Board of Cabinet requirements;**
- **outline specific roles and responsibilities for the ministry representative on the board of directors;**
- **develop and implement procedures to more effectively monitor the activities of the corporation; and**
- **implement a periodic internal audit process to provide assurance that the Corporation fulfills its financial arrangements stipulated in the Memorandum of Understanding.**

Ministry Response

The Provincial Auditor is the auditor of AgriCorp as outlined in legislation. As noted in the Provincial Auditor's report, the Ministry has always acted promptly when concerns have been identified, including the initial comments of the annual financial audit of AgriCorp. Once the Provincial Auditor made known the audit findings, the Ministry proceeded to address these concerns on a priority basis.

The Ministry agrees to review its Memorandum of Understanding to ensure that it complies with new monitoring procedures. Specifically, the Ministry will review the new Directive on Transfer Payment Accountability with the new board of directors and ensure that all mandatory requirements are implemented. It will also refer to the Best Practices Guidelines and incorporate reasonable best practices. The Ministry feels that an appropriate balance needs to be maintained that will allow the Corporation to be operated as an arm's length entity while upholding principles of sound administrative and fiscal practices that are consistent with government guidelines.

In reviewing its Memorandum of Understanding with AgriCorp, the Ministry will ensure that roles and responsibilities for all board members are more clearly defined. This includes that of the ministry representative on the board of directors, who will now become a full voting member on the board. In reviewing these roles and responsibilities, the Ministry will refer to the **Guidance for Directors–Governance Process for Control** ***published by the Canadian Institute for Chartered Accountants.***

The Ministry will increase the resources for agency administration and monitoring and they will report to the Director, Policy and Programs Branch, Policy and Farm Finance Division. These resources will support the ministry representative on the board of directors, as well as provide a point of contact for all agency/ministry relations. The individual will be responsible for ensuring the compliance of the above Memorandum of Understanding and any required reporting documents or procedures. In addition, the Ministry will continue to develop an annual performance contract with the agency.

The Ministry will implement a periodic internal audit process to ensure that the Corporation fulfils its financial arrangements and will assist in the monitoring of the Corporation's internal operations and procedures.