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## MINISTRY OF AGRICULTURE AND FOOD

### 4.01–AgriCorp

(Follow-up to VFM Section 3.01, *Special Report on Accountability and Value for Money—2000*)

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#### BACKGROUND

Established by the *AgriCorp Act*, 1996, AgriCorp's primary business is to administer insurance plans for the agriculture and food industry. At the end of the 2001/02 fiscal year, AgriCorp held assets totalling \$413 million in its General Fund, Crop Insurance Fund, and Market Revenue Program fund. At the end of the 1999/2000 fiscal year, assets totalled \$604 million. In 2001/02, AgriCorp's General Fund paid administrative expenditures totalling over \$12.2 million. In 1999/2000, it had paid \$16 million. During 2001/02, the other two funds paid \$322 million to compensate Ontario farmers for losses from reduced crop yields and low market prices. In 1999/2000, the two funds paid \$180 million.

In 2000, we concluded that AgriCorp did not have adequate procedures in place to ensure that its activities complied with legislation and corporate policies. 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 the resources 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.

Some of our specific findings in 2000 were:

- Inappropriately utilizing ministry funds, AgriCorp lost \$325,000 in a speculative investment initiative to buy and sell bonds on a daily basis. AgriCorp also violated its fiduciary responsibility by attempting to transfer the loss to the Ontario Crop Insurance Fund. We had to intervene to reverse this transfer.
- Contrary to legislation, on several occasions AgriCorp sought to remove money from the Ontario Crop Insurance Fund to pay for its administrative expenses. We had to intervene to ensure the Fund remained intact.
- Without a proper business case and without tender, AgriCorp engaged an intermediary to place \$14.5 million of reinsurance coverage with private insurance companies.
- AgriCorp received little or no value for the \$3 million it spent on information technology development projects that were poorly planned, controlled, and managed. In addition, information technology consultants were engaged without competition and provided with training at taxpayers' expense, and several consultants were retained for periods ranging from five to 13 years at rates of up to \$640 per day.

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- AgriCorp engaged an investment advisor for a minimum annual fee of \$400,000 without competition. The advice received was of little value as the advisor repeatedly recommended investments to AgriCorp that were contrary to its legislation.

Accordingly, we made a number of recommendations to improve the management and governance of AgriCorp and received commitments from AgriCorp and the Ministry that they would take corrective action.

## **CURRENT STATUS OF RECOMMENDATIONS**

According to information received from AgriCorp, action has been taken on all of the recommendations made in our *Special Report on Accountability and Value for Money* (2000). The current status of each of our recommendations is outlined below.

### **COMPLIANCE WITH LEGISLATION AND CORPORATE PROCEDURES**

#### **Investments**

##### **Recommendation**

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

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

##### **Current Status**

AgriCorp informed us that losses noted in our *Special Report* (2000) have been repaid to the Corporation's General Fund. Also, the board of directors has approved new investment policies for both the General Fund and Crop Insurance Fund that comply with the *AgriCorp Act*, 1996. In addition, since October 2000, the Corporation has retained an external accounting firm that performs quarterly reviews of investment activities to determine compliance with the Corporation's investment policies and reports directly to the board.

#### **Fund Administration**

##### **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;*

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- *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.*

### **Current Status**

We were informed that, during 2000, AgriCorp transferred \$2.1 million, plus interest, from its General Fund to the Crop Insurance Fund. This transfer represents a repayment to the Crop Insurance Fund for monies that had been used to pay for administrative expenses. Such expenses, it was determined, should have been paid from the General Fund. Also, in April 2001, the board of directors approved a policy with respect to interfund loans whereby a loan agreement would be drawn up for such loans. This would include identification of the lending and borrowing funds, the amount, interest rate, and repayment schedule.

With respect to administrative funding arrangements to deal with funding pressures, in accordance with a new Memorandum of Understanding, the Corporation will negotiate with the Ministry of Agriculture and Food for any additional funding required on a case-by-case basis.

## **Insurance Claims**

### **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.*

### **Current Status**

The Optional Unit Coverage program will continue to be offered on a pilot basis with the current program covering the 2002 crop year. AgriCorp informed us that an additional deductible—based on the number of units insured—has been implemented to reflect the increased level of risk for this program.

In addition, AgriCorp informed us that it will continue to allow premium payments to be remitted after the harvest under third-party agreements because the premiums are guaranteed by the third party and producers cannot opt out of the program once they have

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enrolled. Indemnity payments are made only after AgriCorp has received the insurance premium.

To help insurance adjusters track crop yields and damage claims, AgriCorp informed us that it started using a geographic information system to evaluate 2001 crop losses. The Corporation will use this system to compare crop yields in a geographic area and investigate those that are not in line with the effects of weather events and adjacent farms in the area.

AgriCorp implemented a pilot project in 2000 to test an alternative method of insuring forage crops based on a model that compares in-year rainfall to historic levels of rainfall to corroborate yield estimation. The pilot is being evaluated to determine the accuracy of the insurance coverage provided, the cost of administration, and customer acceptance.

## ***DUE REGARD FOR ECONOMY AND EFFICIENCY***

### **Information Technology Management**

#### **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 systems 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 systems development projects; and*
- *thoroughly evaluate any new software applications before purchasing them to ensure that they meet corporate needs and can be implemented.*

#### **Current Status**

In March 2001, the board of directors approved a three-year strategic plan that included, as a core element, strategic objectives for information technology. All major information technology purchases now require a business case that includes an assessment of corporate needs and available options and a cost/benefit analysis. In addition, the board of directors must now approve all purchases in excess of \$100,000.

As well, the Corporation has adopted systems development guidelines to help manage and monitor its information technology projects. AgriCorp informed us that project control,

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reporting, and evaluation criteria will be part of the new methodology to help ensure that milestones are achieved and that systems development projects are completed.

## Consulting Services

### 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.*

### Current Status

We were informed that the Corporation now follows a competitive process whenever consulting services are required. AgriCorp has also reduced its reliance on information technology consultants and is developing expertise internally. The Corporation has retained one long-term consultant because of the need for specific programming knowledge that is not readily available in the industry. However, the Corporation indicated that this contract would not be renewed after June 2002. In addition, in future, consultants will be responsible for their own training costs and all consultants will be formally evaluated at the completion of each assignment to assess their performance and qualification for future assignments.

## Investment Services

### 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.*

### Current Status

AgriCorp informed us that they did not renew the contract with their investment advisor when it expired on December 31, 2000, and the Corporation now makes investment

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decisions in-house. In addition, AgriCorp is seeking investment advice, when needed, from the Ontario Financing Authority.

## Reinsurance Coverage

### 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.*

### Current Status

AgriCorp now prepares a business case for reinsurance coverage each year that includes an analysis of the costs and benefits, the effect on premiums, and alternatives. The board of directors is required to review and approve the business case before a competitive process is undertaken for reinsurance coverage. AgriCorp also informed us that it has retained an actuarial firm to design and certify a rate-setting methodology that will ensure the sustainability of the Crop Insurance Fund and stabilize premium rates over time.

## Travel Expenditures

### 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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### **Current Status**

We were informed that new procedures have been put in place for approving and processing travel claims. A new policy for extending hospitality has also been adopted to define what expenditures are permitted and reasonable in a business context.

## **Purchasing**

### **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.*

### **Current Status**

AgriCorp informed us that it reinforced its purchasing policies and procedures with staff and clarified the appropriate use of petty cash and employee travel expense claims for the purchase of goods and services.

## **Management of 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.*

### **Current Status**

AgriCorp indicated that it now maintains an up-to-date asset listing and will implement a process to perform periodic verifications of computer hardware, furniture, fixtures, and other assets. We were also informed that for the 2002/03 fiscal year, a revised termination checklist will be prepared and new procedures will be developed to ensure that all assets are returned when an employee leaves the Corporation.

## **MEASURING AND REPORTING ON EFFECTIVENESS**

### **Program Effectiveness**

#### **Recommendation**

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

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- *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.*

### **Current Status**

A review of AgriCorp's mandate was undertaken in October 2000 and a three-year business plan was approved in March 2001. The business plan for the fiscal years 2001/02 to 2003/04 outlines AgriCorp's mandate as specified in legislation, and the corporate mission statement clearly spells out the responsibilities and priorities of the Corporation.

Through the business planning process for the 2002/03 fiscal year, AgriCorp plans to develop one-year performance measures that are specific, measurable, and timely. AgriCorp intends to seek input and agreement from the Ministry in developing and finalizing these measures. In addition, AgriCorp's CEO and the Deputy Minister now meet quarterly to assess the Corporation's progress toward meeting its business plan objectives. Monthly meetings between corporate and ministry staff have been initiated to discuss ongoing policy and operational issues and to review AgriCorp's performance.

## **Corporate Governance**

### **Recommendation**

*To improve corporate governance, AgriCorp should:*

- *review the board [of directors] 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.*

### **Current Status**

AgriCorp informed us that, in order to improve corporate governance and establish clear lines of communication and accountability, the board of directors was restructured in June 2000. This restructuring resulted in a single, 12-member board structure, as opposed to the previous dual board structure. The Corporation also established two standing board committees with clearly defined roles and responsibilities—the Executive Committee and the Crop Insurance Committee.

In November 2001, a new Memorandum of Understanding between AgriCorp and the Ministry was put in place detailing the responsibilities of the chief executive officer to the

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board of directors, its chair, and the Deputy Minister. In addition, the Ministry or the Management Board of Cabinet may initiate periodic reviews of the Corporation, which would include reviews of the roles of the chair and Deputy Minister, the mandate of the Corporation, and its organizational structure.

## **MINISTRY RESPONSIBILITY**

### **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.*

### **Current Status**

In November 2001, AgriCorp signed a new Memorandum of Understanding with the Ministry that outlines the responsibilities of the Ministry and the Corporation as well as the ministry representative on the board of directors. One of the responsibilities of the Ministry representative is to perform an overall monitoring function of the Corporation and to provide the Deputy Minister with quarterly reports containing an overview of the Board's decisions and summaries of financial and administrative matters to help the Minister determine whether AgriCorp is fulfilling its mandate. In addition, the Memorandum requires that the Ministry's Internal Audit Branch periodically carry out audits of the activities of the Corporation.