Ministry of Agriculture, Food and Rural Affairs

Farm Support Programs

1.0 Summary

Ontario's 49,600 farms cover 12.3 million acres and account for one-quarter of all farms in Canada. In 2016, Ontario's agricultural sector contributed $4.4 billion to the provincial economy and employed almost 78,000 people.

Farmers face two broad categories of operating risks that can affect their profitability and the quality and/or quantity of the commodities they produce:

- **Production risks** relate primarily to the impact on production of such factors as harsh weather, disease and pests.
- **Price risks** relate to fluctuations in the cost of goods and services used to produce commodities, and in the selling prices for those commodities.

The federal, provincial, and territorial governments share responsibility for developing 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, and oversees the delivery of programs. Agricorp, an Ontario Crown agency, delivers most programs. From 2012/13 to 2016/17, the federal government and the Ministry spent a total of $2.3 billion on farm-support programs in Ontario.

Ontario farmers receive financial assistance primarily through **business-risk-management programs** that aim to help farmers reduce income losses due to low commodity prices, decreased production, or natural disasters. The four business-risk-management programs that provide financial assistance to farmers are:

- **Production Insurance**, which compensates crop farmers for lower yield due to adverse weather, wildlife, pest infestation or disease;
- **AgriStability**, which compensates farmers for significant drops in their farm income;
- **AgriInvest**, which is a savings program (to help farmers manage small decreases in income) in which the federal and provincial governments match farmers' deposits; and the
- **Ontario Risk Management Program**, which compensates livestock, grains, and oilseed farmers when the cost of producing their commodities exceeds their market value. For fruit and vegetable farmers, the program works similarly as AgriInvest.

To a lesser extent, cost-sharing programs for strategic initiatives, which aim to encourage innovation and increase competitiveness in the agricultural sector, provide funding to farmers to help cover part of the cost to implement best practices in farm management.

The federal, provincial and territorial governments' overall objective for farm-support programs is to help the Canadian agricultural sector be profitable, sustainable, competitive and innovative. The various business-risk-management programs are intended to work as a suite to provide farmers with a choice of programs that best suit their individual operations.

Production Insurance appears to help most crop farmers manage production losses by allowing farmers to select the level of coverage and receive payments in the same year they incur the loss. However, our audit found that weaknesses in the design of the other business-risk-management programs limit the ability of the entire suite to provide appropriate support to help farmers manage their risks. We found that:

- **The $100-million-a-year Ontario Risk Management Program often pays farmers with little regard to individual need.** Our analysis of program payments from 2011 to 2015 found that only half of farmers who received payments over that period (an average of $11,000 each) actually reported either a loss or a drop in income in the year they received the payment. In other words, farmers received payments even though they did not incur any reduction in income, contrary to the intent of the program. This is because program payments are based on the industry-average production cost and not on farmers' individual costs. In fact, we found that 30% of payment recipients during that period actually reported higher income in the year they received assistance than the year before. For example, nearly a quarter of the 4,900 payment recipients reported positive operating income in 2015 and also reported that their operating income increased by an average of $106,000 (44%) compared to 2014.
- **The Ontario Risk Management Program benefits large farms.** The program's design, based on the industry-average production cost, favours efficient farms with lower production costs than the industry-average. Cost efficiencies can be more easily achieved by large-scale farmers due to greater economies of scale. As a result, large farms receive payments based on the higher industry-average production cost even though it cost them less to produce their commodity. For example, one hog farmer received $827,000 in 2015. The farm's actual production cost was $36.4 million but the farmer received payment based on the industry-average cost of $66.3 million. If payment was based on the farm's actual production cost, the farmer would have received no payment.
- **Low farmer participation limits AgriStability's capacity to provide support.** The number of farmers participating in AgriStability has decreased by half in the last 10 years. Between 2011 and 2015 alone, participation fell by nearly one-third. Farmers have cited insufficient support and delays in payments as reasons for dropping out.
- **Farmers do not benefit equally from AgriStability.** Of the over 21,000 grains and oilseed farmers' (the largest agricultural sector in Ontario) applications for AgriStability from 2013 to 2015, 10% actually triggered payments, compared to 21% of cattle farmers' applications, despite more grains and oilseed farmers experiencing large declines in their net income over the same period. This is because the biggest expenses for grains and oilseed farms—equipment purchase/maintenance and land purchase/lease—are not taken into account when calculating payments.
- **Changes to AgriStability in 2013 lowered coverage and payments to farmers.** The intent of these changes was to provide support only for "disaster-level income declines" and compensate farmers for losses rather than lower profits. One of the changes has affected over half of the more than 44,000 farmers who applied for AgriStability since 2013, resulting in many farmers either receiving lower payments than they would have prior to the changes, or no payment at all.

For example, one farmer received $455 to compensate for a $174,000 (or 64%) drop in net income. Prior to the changes, the farmer would have received $64,687.

- **Existing programs are likely insufficient to help farmers during a crisis because of low and decreasing participation, low coverage, and low payments.** Market-related crises (such as those due to high input prices, low selling prices and a high Canadian dollar) cause the most serious farm losses, but three-quarters of Ontario farmers do not have protection under AgriStability (the primary program to address market-related losses). Because support provided by existing programs is not sufficient, the Ministry would need to provide additional funding in times of crisis. However, the Ministry's existing plans are inadequate to provide support to farmers during such crises because they are not designed to deal with long-term or market-related crises and do not outline how support will be provided to help farmers recover from losses.

We also found that Agricorp's systems and processes need to be improved to ensure that its delivery of farm-support programs is efficient, economical and in compliance with relevant agreements and policies. For example:

- **Incorrect and misleading information from some farmers has resulted in inaccurate payments.** Agricorp payments are based on information reported by farmers themselves, but farmers are not required to provide documentation to support income, expense, and other financial information they report. Agricorp generally does not validate the information from farmers for Production Insurance and the Ontario Risk Management Program; nor are farm inspections required for AgriStability and the Ontario Risk Management Program. In 31% of the audits conducted in the last five years, Agricorp's program audit group identified $5.6 million in over- and underpayments to farmers resulting from incorrect or false information provided to Agricorp.
- **Agricorp's aging IT systems are costly and susceptible to errors.** Agricorp uses over 30 IT systems to administer programs. One of its four main systems is 25 years old while another is over 10 years old. In the last five years, there have been 31 system-related errors that resulted in farmers either receiving incorrect information about their program participation, or incorrect payments totalling over $2.7 million. IT maintenance costs currently represent nearly one-third of Agricorp's annual expenditures, up from 20% in 2007. Although Agricorp is currently working to renew its IT infrastructure, it has not yet determined the cost and time required to complete this renewal.
- **Agricorp's board did not receive documented briefings from management on the results of program audits.** Agricorp's operations are governed by a board of directors accountable to the Minister. There was no documented evidence that Agricorp's board received information on instances of farmers being found to provide false or misleading information to Agricorp as well as other findings of Agricorp's program-audit group.

From 2013 to 2017, the Ministry spent $1.06 billion on farm-support programs, and has either budgeted or committed another $275 million until 2018. However, we found that, while the Ministry and Agricorp have established a number of performance measures for the various farm-support programs, neither could demonstrate whether the entire suite of programs were helping Ontario farmers become profitable, sustainable, competitive and innovative. In particular:

- **There is little incentive for farmers to be innovative.** Funding for strategic initiatives that encourage innovation (such as research and development activities to improve productivity, develop or improve farm practices, or increase efficiencies) represents 15% of total farm-support programs. Further, as a result of limited annual funding for strategic initiatives, some farmers did not receive funding for projects that were rated by the Ministry as superior to others that received funding in other years, when there were fewer applications. The Organization for Economic Co-operation and Development has noted that this strategy of focusing support on business-risk-management programs does not encourage farmers to develop proactive risk-management approaches, which would contribute to achieving ministry goals.

- **Performance measures are not tied to program goals.** Performance measures focus mainly on outputs, such as number of participants and amount of payments, rather than on program goals. Although the programs are intended to work together, they are in fact evaluated independently of one another. In 2016, the Ministry began analyzing the impact on farmers of support programs, but the analysis is incomplete and we also found conflicting evidence, which indicates that further work is needed.

This report contains 14 recommendations with 19 action items.

Overall Conclusion

Our audit found that the Ministry had processes in place to design farm-support programs in compliance with relevant legislation, regulations, agreements and policies. However, the programs are not fully effective in ensuring support for farmers to manage their risks. Although Production Insurance appears to provide timely and sufficient support to help crop farmers manage production risks, we found that the design of the other programs limit the ability of the entire suite to provide appropriate support to farmers. Specifically:

- The Ontario Risk Management Program pays farmers with little regard to individual farmers' needs. We found that some farmers received payments even in profitable years because payments are based on industry-average production costs and not on the farmers' own circumstances.
- AgriStability's ability to provide needed support is limited by low farmer participation. We found that farmers do not benefit equally from the program as the design of the program tends to favour certain types of farming operations. Farmers have also criticized delays in receiving payments as well as recent changes, which have resulted in lower payments.

Support provided through the existing business-risk-management programs are likely insufficient to help farmers during a crisis because of low participation and low payments. Because of this, the Ministry would need to provide additional funding in periods of crisis. However, the Ministry's contingency plan is inadequate to provide such support.

Similarly, we found that Agricorp systems and processes needed to improve to ensure that the delivery of farm-support programs is efficient, economical and in compliance with relevant agreements and policies. Overpayments occur due to incorrect and misleading information from farmers, which Agricorp often does not verify. Agricorp's aging information systems are costly to maintain, and weaknesses have resulted in errors that led to farmers receiving incorrect information or payments.

We also found that neither the Ministry nor Agricorp had effective processes to evaluate and publicly report on the strategic and operational effectiveness of farm-support programs. Neither the Ministry nor Agricorp can demonstrate how the programs have achieved the objective of fostering a profitable, sustainable, competitive and innovative agricultural industry.

MINISTRY AND AGRICORP OVERALL RESPONSE

The Ministry and Agricorp appreciate the Auditor General's observations and recommendations, and agree that there are opportunities for improvement. The Ministry and Agricorp have initiated work to address the Auditor General's recommendations, including discussions with Federal-Provincial-Territorial (FPT) colleagues.

Agriculture is a shared FPT responsibility. As such, most business risk management (BRM) programs are negotiated among 14 governments with different agricultural conditions. Any changes to the objectives and design of programs require the agreement of the federal government and the majority of provinces and territories. Similarly, 25% of Ontario farm production is subject to the national supply management system, a key business risk management system.

This summer, FPT ministers agreed to conduct a comprehensive review of the national BRM suite. This review is being led by deputy ministers reporting directly to FPT ministers. It was driven by recognition among governments, and as recognized by the Auditor General, that some BRM programs were not sufficiently timely and predictable. The Ministry will conduct a concurrent evaluation of its Ontario Risk Management Program to ensure that it and the national suite work in harmony and respond to the audit's findings. Within the context of these reviews, in addition to existing program mechanisms, the Ministry will work with its partners to document a crisis-response plan and implement opportunities to better measure and analyze the collective impact of farm-support programs.

Farm support programs are critical to fostering the economic development of Ontario's agricultural sector. While farm incomes are at or near record levels, and primary level GDP and agri-food exports are growing, access to a suite of effective BRM programs is intended to provide producers confidence that the viability of their farm businesses will not be undermined by risks beyond their control. That confidence encourages Ontario farmers to innovate and invest in their businesses. In addition, Ministry strategic investment programming, targeted at supporting high-potential business improvements, stimulates farm businesses to be productive, to innovate, to build resilience and to manage risks.

2.0 Background

2.1 Overview of Farming in Ontario

Ontario's 49,600 farms cover 12.3 million acres and account for one-quarter of all farms in Canada. In 2016, the province's agricultural sector contributed $4.4 billion to the Ontario economy and employed almost 78,000 people.

There are two broad categories of agricultural products or commodities: crops (including fruits, vegetables and grains), and livestock (including cattle, hogs, and poultry). The 2016 Statistics Canada Census on Agriculture reported that Ontario has over 29,300 crop farms and more than 20,200 livestock farms. **Figure 1** shows the breakdown of farms in Ontario by the type of commodity they produce.

Grains and oilseed farms account for the largest number of farms—one-third of the provincial total—and Ontario is Canada's leading producer of soybeans and corn.

As shown in **Figure 2**, two-thirds of Ontario farms are located in the southern and western parts of the province. Crop farms are located mainly in southern Ontario, with 40% of fruit farms in the Niagara area and 25% of vegetable farms in Haldimand-Norfolk and other counties on Lake Erie. Livestock farms are located mostly in western Ontario, with 35% of hog operations in the Huron-Perth area and 20% of cattle operations in the Bruce-Grey area.

Figure 1: Historical Overview of Farming in Ontario, 2006–2016

Source of data: Statistics Canada Census of Agriculture 2006, 2011 and 2016

	2006	2011	2016	% Change (2006–2016)
# of farms	57,211	51,950	49,600	**(13)**
# of farm operators[1]	82,405	74,840	70,470	**(14)**
Total Area of Farms (millions of acres)	**13.3**	**12.7**	**12.3**	**(8)**

# of Farms by Classification[2]	2006	2011	2016	% of Total (2016)
Crop Production				
Grains and oilseed[3]	13,056	15,818	16,876	**34**
Fruit and vegetable	3,828	3,258	3,422	**7**
Hay	5,917	5,600	4,681	**9**
Greenhouse, nursery and floriculture	2,822	2,372	2,050	**4**
Other crops[4]	2,739	2,495	2,302	**5**
Subtotal – Crop Production	**28,362**	**29,543**	**29,331**	**59**
Animal Farming				
Beef cattle	11,052	7,105	6,786	**14**
Dairy cattle[5]	4,937	4,036	3,439	**7**
Poultry and egg production[5]	1,700	1,619	1,816	**4**
Hogs	2,222	1,235	1,229	**2**
Sheep and goat	1,365	1,446	1,097	**2**
Other animal farming[6]	7,573	6,966	5,902	**12**
Subtotal – Animal Farming	**28,849**	**22,407**	**20,269**	**41**

1. Farm operators are those persons responsible for management decisions in operating a farm. They can be owners, tenants or hired managers.
2. Farms are classified according to the predominant type of production. Farm classifications are based on the 2007 North American Industrial Classification System (NAICS).
3. Grains and oilseed include soybeans, other oilseed, wheat, corn and other grains.
4. Includes tobacco and maple syrup.
5. Dairy, and poultry and egg production are governed by the supply-management system, under which production volumes and commodity prices are strictly controlled to meet consumer demand, and to enable farmers to cover their costs of production and earn a fair return.
6. Includes apiculture (beekeeping), horse and other equine production, fur-bearing animals, and rabbit production.

In 2016, Ontario farms produced $13.0 billion worth of agricultural commodities. About 65% of this was sold to local food and beverage processors. The remaining 35% was either consumed directly by Ontarians or exported to other provinces and countries (mainly the United States).

As illustrated in **Figure 3**, half of Ontario farms earn less than $50,000 annually from the sale of their agricultural products. These farms are sustained primarily by their off-farm income, for example from non-farm wages, salaries, pensions and investments. According to the Ministry's analysis of income information for a sample of Ontario farms, off-farm income accounts for over 80% of the total family income on average. However, as shown in **Figure 3**, the percentage of total family income that is earned from off-farm activities decreases as farm operations get bigger.

2.2 Farm-Support Programs

Farm-support programs are designed to address the two broad areas of risk faced by farmers:

- production risks, including pests, disease and bad weather, that affect the quantity and/or quality of the commodities they produce; and

Figure 2: Breakdown of Ontario Farms by Location and Commodity

Source of data: Statistics Canada Census of Agriculture 2016

	% of Farms That Produce the Commodity Located in Each Region of Ontario					Total # of Farms That Produce the Commodity
Commodity Produced	**Southern**	**Western**	**Central**	**Eastern**	**Northern**	
Grains and oilseed	53	28	8	10	1	**16,876**
Fruits and vegetables	49	19	17	11	4	**3,422**
Hay	19	10	8	4	2	**4,681**
Greenhouse, nursery and floriculture	44	22	19	10	5	**2,050**
Beef cattle	12	45	19	17	6	**6,786**
Dairy cattle	20	42	10	24	3	**3,439**
Hogs	37	58	2	3	1	**1,229**
Poultry and eggs	39	41	11	8	2	**1,816**
Sheep and goats	21	41	19	14	5	**1,097**
Other*	20	31	22	20	8	**8,204**
Total % of All Farms	**34**	**33**	**14**	**15**	**4**	**49,600**

* Other includes apiculture (beekeeping), horse and other equine production, fur-bearing animals, rabbits, tobacco, maple syrup and other miscellaneous animal and crop production.

- price risks, such as fluctuations in the costs of goods and services they have to buy to produce commodities, in the selling prices for those commodities, and in exchange rates.

Governments across the world use various types of farm-support programs to help manage these risks. The Organization for Economic Co-operation and Development (OECD) measures farm-support level in various countries as part of its monitoring and evaluation of agricultural policies. In 2017, the OECD's evaluation of farm-support programs in 22 countries found that the average spending on farm-support was 0.94% of gross domestic product. Canada's spending was below this average at 0.42% of its gross domestic product. The Ministry estimated that Ontario's spending on farm-support programs is approximately 0.24% of the provincial gross domestic product.

2.2.1 Responsibility for Farm-Support Programs

The federal government—through Agriculture and Agri-Food Canada—and the provincial and territorial governments are responsible for developing agricultural policy frameworks and agreements to deliver programs that help farmers manage risks. See **Appendix 1** for a list of selected key agricultural stakeholders and organizations, including Agriculture and Agri-Food Canada.

In 2016/17, the federal government contributed $197 million, up $5 million from 2015/16, to Ontario farm-support programs, while the Province paid $265 million, up $4.5 million from the previous year. From 2012/13 to 2016/17, the two governments spent a total of $2.3 billion on farm-support programs in Ontario.

In Ontario, the Ministry of Agriculture, Food and Rural Affairs (Ministry) is responsible for policy decisions related to farm-support programs. The Ministry is also responsible for overseeing the delivery of these programs.

Figure 3: Breakdown of Ontario Farms by Farm Income
Prepared by the Office of the Auditor General of Ontario

Gross Farm Receipts[1]	# of Farms[2]	% of Ontario Farms	Average % of Total Farm Income From Off-Farm Activities[3]
Less than $10,000	9,536	19	No data[4]
$10,000–$24,999	8,376	17	107[5]
$25,000–$49,999	6,755	14	100
$50,000–$99,999	6,263	13	95
$100,000–$249,999	7,022	14	80
$250,000–$499,999	4,707	10	53
$500,000–$999,999	3,689	7	35
$1,000,000 and over	3,252	6	30
Total	**49,600**	**100**	

1. Represents receipts from all agricultural products sold.
2. Information is based on Statistics Canada's 2016 Census of Agriculture.
3. Information is based on a Ministry analysis using data on a sample of 25,900 farms from Agriculture and Agri-Food Canada's database, and represents the average in the last five years (2013 to 2017).
4. Ministry analysis did not include information for this range.
5. Indicates that farm operation was in a deficit position before income from off-farm activities.

Agricorp

The *Agricorp Act, 1996* established Agricorp as a Crown agency and the delivery agent for Ontario's support programs to farmers. Agricorp is governed by a board of directors accountable to the Minister for oversight and governance of the agency.

As of January 31, 2017, Agricorp had 319 full-time equivalents, about 40% of whom were directly involved in delivering farm-support programs. They collect and review farmer information to determine eligibility, review payment applications, and issue payments. Approximately 50 of these are field staff, who are employed on a seasonal or contract basis to verify farmer-reported yield and crop-damage claims.

Approximately 25% of Agricorp's full-time equivalents oversee the various information systems that the agency uses to deliver farm-support programs. The remainder perform administrative functions in financial, legal and human resource areas.

2.2.2 *Growing Forward 2 Agricultural Policy Framework* for 2013-18

Developed by the federal, provincial, and territorial governments, the *Growing Forward 2 Agricultural Policy Framework* for 2013-18 (Framework) governs most of the farm-support programs across Canada. The federal government and the Ministry generally share the costs of delivering programs in the Framework on a 60:40 basis.

The objective of the Framework is to achieve a profitable, sustainable, competitive and innovative agriculture sector. The Framework provides farm support through two funding streams:

- **business-risk-management programs** that aim to mitigate farm income losses stemming from low commodity prices, reduced production, or natural disasters; and
- **cost-sharing programs for strategic initiatives** that aim to help farmers implement best practices in farm management.

The following sections describe the funding streams and the programs under each.

2.3 Business-Risk-Management Programs

Business-risk-management programs provide financial assistance to farmers to help mitigate drops in income due to factors beyond their control, such as harsh weather, rising costs, or low market prices for commodities. The programs are intended to work as a suite. Farmers choose to participate in programs that best suit their individual operations and circumstances.

Figure 4 summarizes the four business-risk-management programs in Ontario. Three of the four—Production Insurance, AgriStability and AgriInvest—are Canada-wide programs governed by the Framework. The federal government and the Ministry share the costs of these programs on a 60:40 basis. In Ontario, Agricorp delivers Production Insurance and AgriStability while Agriculture Canada delivers AgriInvest.

The $100-million-a-year Ontario Risk Management Program is an Ontario-only program, funded solely by the Ministry and delivered by Agricorp.

Figure 5 provides a summary of how the various business-risk-management programs in Ontario work.

Figure 6 provides a breakdown by amount of the 2015 payments under the various business-risk-management programs. Depending on the program, payments may be based on the calendar year, the farmers' planting season, or the tax year. Because of timing differences in the calculation of payments for the various programs, 2015 is the most recent year for which complete payment information is available for all programs.

Figure 4: Business Risk Management Programs in Ontario

Prepared by the Office of the Auditor General of Ontario

Program	How the Program Works	Eligible Farming Operations	# of Participants[1] in 2015	# of Payment Recipients[2] in 2015	Total Payments in 2015[3] ($ million)
Canada-Wide Programs					
Production Insurance	Pays farmers for crop losses due to adverse weather, wildlife, pest infestation or disease.	Crops, bees	14,246	5,726	**89.4**
AgriStability	Pays farmers for large drops in their farm income compared to their average income.	All	14,119	1,677	**56.4**
AgriInvest	Federal government and Ministry match farmers' deposits (up to $15,000) in special accounts.[4] Farmers may withdraw part or all of the money in the account.	All	21,677	10,764	**106.9**[5]
Ontario-Only Program					
Ontario Risk Management Program	Pays farmers when income from selling their commodity is less than industry-average cost to produce the commodity	Livestock, grains and oilseeds	6,681	6,427	**96.5**[6]
	Ministry matches farmers' deposits (up to a max), all or a portion of which farmers may withdraw	Fruit and vegetables	2,085	1,757	**51.5**[5]

1. Participants are those who paid fees or premiums, or made deposits. Farmers may participate in more than one program.
2. Recipients are those who received program payments.
3. Depending on the program, payments may be based on farmers' planting season (Production Insurance), tax year (AgriStability), or the calendar year (all other programs). Because of timing differences in the calculation of payments for the various programs, 2015 is the most current year for which complete payment information is available for all programs.
4. These special accounts are savings accounts held at participating financial institutions, and are managed by farmers.
5. Represents total amount withdrawn by farmers, including farmers' own deposits.
6. Includes payments made from the Farmers' Risk Management Premium Fund, in addition to funding from the Ministry.

Figure 5: How Business-Risk-Management Programs Work

Prepared by the Office of the Auditor General of Ontario

	Fees Paid by Farmers to Participate[1]	Coverage Level	Payment Trigger	Timing of Program Payments
Needs-Based Programs that Provide Payments Only when a Loss is Incurred				
Production Insurance	40% of actuarial-based premium based on chosen coverage level and average yield.	Farmers can choose coverage level between 65% to 90% of production depending on the type of commodity.	Farmer's reported actual harvested yield is less than their insured yield.	Payments are generally received in the same year as the loss. Reporting deadlines vary between September and December based on the crop.
AgriStability	0.315% of farmer's historical net income +$55 admin fee.	70% of drop in net income (compared to average) greater than 30%.	Farmer's current net income is lower by at least 30% compared to the lower of their average net income or average expenses.	Payments are generally received in the year following the loss.[2]
Ontario Risk Management Program—Livestock and Grains and Oilseeds	Non-actuarial based premiums based on chosen coverage level, average yield, and acreage or livestock enrolled.	Farmers can select 80%, 90%, 100% coverage of the industry-average cost to produce crop or livestock.	Market prices are lower than industry-average cost of production.	Payments are generally received in the same year as the loss. Livestock: September, December, and March. Grains and oilseed: November and June.
Entitlement Programs that Provide Payment Regardless of Loss				
Ontario Risk Management Program—Fruit and Vegetables	No fees	Ministry matches 100% of deposits, up to a maximum of between 1.0%–2.5% of allowable net sales.	The farmer withdraws funds.	Farmer can withdraw at any time.
AgriInvest	No fees	Government matches 100% of farmer's deposits up to a maximum of 1% the farmer's allowable net sales (to a maximum value of $15,000/year).	The farmer withdraws funds.	Farmer can withdraw at any time.

1. Fees are paid every year that a farmer chooses to participate in the program.
2. Payments under the Ontario Risk Management Program are considered an advance towards the Ministry's 40% share of the farmer's AgriStability payments.

Figure 6: Breakdown of 2015 Payments under Business-Risk-Management Programs

Prepared by the Office of the Auditor General of Ontario

	Production Insurance		AgriStability		AgriInvest		Ontario Risk Management Program[1]	
Payment Amount ($)	# of Recipients	Total Paid ($ 000)	# of Recipients	Total Paid ($ 000)	# of Recipients	Total Paid ($ 000)	# of Recipients	Total Paid ($ 000)
0	8,520	0	12,442	0	10,913	0	550	0
1–10,000	3,987	13,955	1,052	3,407	8,395	21,579	5,593	17,389
10,001–50,000	1,408	29,807	448	10,676	2,020	44,927	1,765	39,113
50,001–100,000	207	14,515	82	5,477	259	17,970	293	21,090
100,001–500,000	114	19,757	80	17,074	84	14,204	274	49,841
500,001–1,000,000	4	2,607	8	6,193	3	2,018	17	12,616
Over 1,000,000	6	8,734	7	13,595	3	6,235	6	8,013
Total[2]	**5,726**	**89,375**	**1,677**	**56,422**	**10,764**	**106,934**	**7,948[3]**	**148,062**

1. Includes recipients and payments under the various plans for livestock, grains and oilseed, and fruit and vegetable farmers.
2. Total does not include farmers who did not receive payments.
3. Total number of recipients does not equal total recipients in **Figure 4** because farmers may participate in more than one plan.

2.3.1 Production Insurance

The Production Insurance program was established in 1966 to compensate farmers for crop losses or low yields due to “perils” such as adverse weather, damage by wildlife, pest infestation, and disease. **Figure 7** illustrates Production Insurance claims by type of peril in 2015.

Production Insurance covers about 100 types of commercial crops. It is jointly funded by the federal and Ontario agriculture ministries, and delivered by Agricorp.

Participating in Production Insurance

Production Insurance compensates farmers for any difference between insured production-level guarantees and their actual production. Every year before planting season, farmers can sign up for, renew, or make changes to their insurance coverage. Production Insurance guarantees payment for a production level based on a farm’s historical reported yield, and the level of coverage they choose, which can be between 65% and 90%, depending on the crop.

Agricorp calculates the total premium based on the farmer’s history of past claims, the type of crop insured, the number of acres to be planted, and the farmer’s chosen coverage level. Generally, farmers pay 40% of the total premium, the federal government 36%, and the Ministry 24%. Premiums are actuarially sound, which means that the total premiums paid by farmers and the governments are calculated to ensure that premiums are sufficient to cover claims over time. All premiums are deposited into the Production Insurance Fund, which is managed by Agricorp.

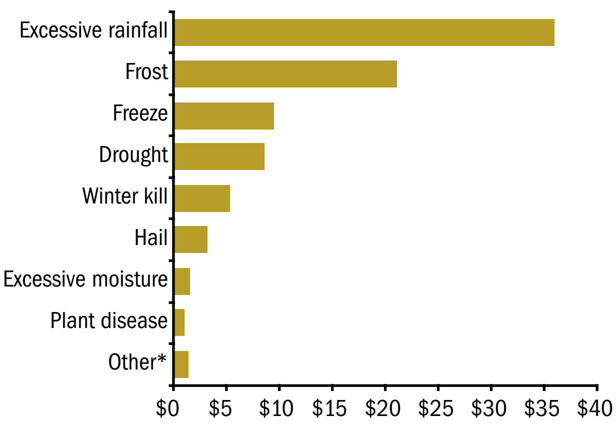
Production Insurance Fund (Fund)

As shown in **Figure 8**, annual premiums paid by farmers have not been sufficient to cover the annual payments made to them. However, government contributions to premiums, plus investment income, have exceeded what was needed to bridge the gap. As a result, the Fund balance has increased by $192 million in the last five years, and stood at about $866 million as of March 31, 2017.

Amounts remaining in the Fund after payouts to farmers are kept in a reserve to cover claims that might, in a particular year, exceed premiums

Figure 7: Production Insurance Claims by Type of Peril, 2015 ($ million)

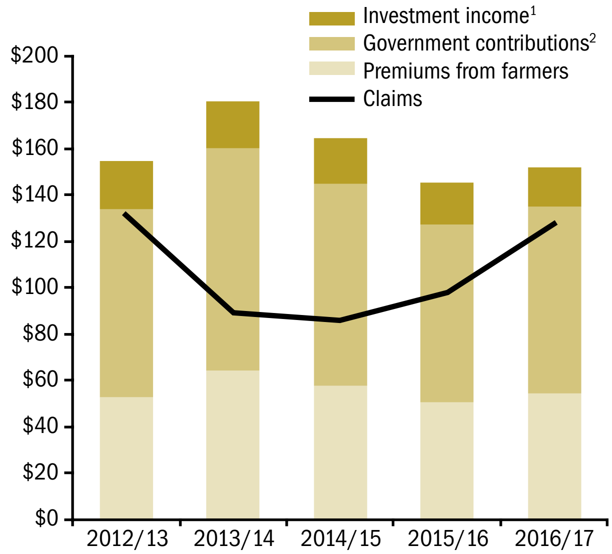
Source of data: 2015/16 Agricorp Annual Report



* "Other" includes flood, pest infestation and wildlife.

Figure 8: Comparison of Production Insurance Premiums and Claims, 2012/13–2016/17 ($ million)

Source of data: Agricorp



1. Income earned from marketable investments
2. Contributions made by the federal and Ontario governments

paid. Agricorp also purchases reinsurance from private carriers to limit Ministry liability in the event of unexpectedly high claims. Agricorp spent $53.1 million on reinsurance from 2012/13 to 2016/17, but did not file claims on these policies, because total claims from farmers in those years did not meet the minimum thresholds in its reinsurance agreements. The increasing Fund balance means Agricorp has a greater ability to absorb high claims, so reinsurance costs have decreased to $3.6 million in 2016/17 from $19.5 million in 2012/13 as Agricorp purchased less reinsurance.

Applying for Production Insurance Payment

Farmers receive payments if any of the insured perils cause their actual yield to fall below their guaranteed production level.

Before they can collect, farmers must report crop damage to Agricorp, whose adjusters inspect the damage—if deemed necessary—before farmers begin reseeding or harvesting.

Adjusters may determine that a farm inspection is needed to verify the damage when, for example, a claim seems "unusually large" for the area or year, when the cause of damage sounds unusual (a new disease, for example), or if the farmer has a history of frequent claims. Adjusters may also conduct inspections to verify the number of acres planted or determine how the farmer measured the yield.

Review and Appeal Process

Farmers who disagree with Agricorp decisions can request a review by Agricorp's Internal Review Committee, composed of at least three Agricorp staff selected for their understanding of the issues under review. If the farmer disagrees with the Committee's decision, they can file an appeal with the Agriculture, Food and Rural Affairs Appeal Tribunal. See **Appendix 1** for information about the Tribunal.

Appendix 2 summarizes the number of reviews and appeals related to Production Insurance in the last five years.

2.3.2 AgriStability

AgriStability was introduced in 2008. Unlike Production Insurance, which only protects against crop loss, AgriStability is intended to protect the entire farm's income against large losses due to production loss, rising costs of required goods and service, or low selling prices for commodities.

Farmers must pay an annual fee to participate in AgriStability that includes a $55 administrative charge and the farmer's "contribution amount," equal to 0.315% of the prior year's "average net income" (the difference between eligible income and eligible expenses). "Average net income" is defined as the farm's net income in three of the preceding five years, after dropping the highest and lowest values.

AgriStability is jointly funded by the federal government and the Ministry, and delivered by Agricorp.

Applying for AgriStability Payments

In order to be eligible for payment, farmers must file their income-tax return and submit a claim form to Agricorp. The form provides information that helps Agricorp determine how much, if anything, a farmer will receive. The determination includes whether the farmer's own actions—for example, downsizing—contributed to the lower income.

An AgriStability payment is triggered when the farm's current-year net income is lower than the lesser of its "average net income" or average expenses by more than 30%. Agricorp primarily uses a farmer's income-tax information to calculate AgriStability payments.

If a farm's current-year net income falls below the payment trigger, AgriStability covers 70% of the drop in net income. **Figure 9** illustrates the calculation for AgriStability payments.

Review and Appeal Process for Farmers

Farmers who want to dispute Agricorp's decision about their AgriStability eligibility or application must submit an amendment request to Agricorp explaining why they disagree. If Agricorp denies the amendment request, farmers may request a review by the Business Risk Management Review Committee. See **Appendix 1** for information about the Committee. The Committee's recommendations are not binding; Agricorp can accept part or all of them, or reject them outright.

Appendix 2 summarizes the number of reviews and appeals related to AgriStability in the last five years.

2.3.3 AgriInvest

AgriInvest, introduced in 2008, is a program in which the federal and Ontario agriculture ministries match farmers' contributions to individual savings accounts. The program is intended to help farmers manage small decreases in income. Although AgriInvest is funded jointly by the federal and Ontario ministries, it is delivered by Agriculture and Agri-Food Canada on behalf of all the provinces and territories, except Quebec.

Each year, farmers can deposit up to the amount of their allowable net sales into a bank account that they manage themselves. The federal government and the Ministry match the first 1% of the farmers' contribution, to a maximum of $15,000 per year.

Farmers can withdraw some or all of the funds to offset losses, help with cash-flow needs, or support investments to help them manage business risks. The account balance—including contributions from the farmer, the federal government and the Ministry, plus interest earned—is limited to 400% of a farmer's average allowable net sales for the current year plus the two preceding ones.

2.3.4 Ontario Risk Management Program

The Ontario Risk Management Program (Program) is intended to help mitigate losses caused by increased costs and/or lower market prices for commodities. It was first introduced in 2007 for grains and oilseed, and was expanded in 2011 to livestock and to fruits and vegetables.

The Program is funded solely by the Ministry and delivered by Agricorp. Since 2013, the Ministry has capped total annual funding for the Program at $100 million, including administration costs as well as payments to farmers. For farmers who are

Figure 9: Illustration of AgriStability Payment Calculation

Prepared by the Office of the Auditor General of Ontario

The illustration below uses an example of a farmer applying for AgriStability for the 2016 year, during which the farm had a net income of $60,000 and eligible expenses of $55,000.

Part 1 – Calculating the "average net income"[1]

1. Eliminate the highest and the lowest net income in the five preceding years.

					Current-Year Net Income (Not Used Yet)
2011	~~2012~~	~~2013~~	2014	2015	2016
$107,000	~~$116,000~~	~~$98,000~~	$112,000	$108,000	$60,000

2. Calculate the average of the remaining three years.

			2011		2014		2015				
Average net income	=	(	$107,000	+	$112,000	+	$108,000	)	÷	3 =	**$109,000**

Part 2 – Calculating the "average eligible expenses"

1. Eliminate the eligible expenses in the same years that were eliminated in Part 1 above.

					Current-Year Eligible Expenses (Not Used Yet)
2011	~~2012~~	~~2013~~	2014	2015	2016
$99,000	~~$95,000~~	~~$94,000~~	$102,000	$104,000	$55,000

2. Calculate the average of the remaining three years.

			2011		2014		2015				
Average eligible expenses	=	(	$99,000	+	$102,000	+	$104,000	)	÷	3 =	**$101,667**

Part 3 – Calculating the "payment trigger"

1. Determine the lower of the two averages calculated in Parts 1 and 2 above.[2]

Average net income	$109,000
Average eligible expenses	**$101,667**

2. The payment trigger is 70% of the lower of the two averages.

Payment trigger	=	70% of $101,667	=	**$71,167**

Part 4 – Calculating the AgriStability payment

1. Determine whether farmer will trigger payment calculation.

Is current-year net income below the payment trigger calculated in Part 3 above?

Current-year net income ($60,000) is below the payment trigger ($71,167); therefore, farmer will receive an AgriStability payment.

2. Calculate the AgriStability payment.

AgriStability payment is 70% of (payment trigger less current-year net income)

Payment	=	$71,167	−	$60,000	=	$11,167	×	70%	=	**$7,817**

1. AgriStability guidelines outline eligible income and expenses used to calculate average net income. Average net income may be adjusted for changes in inventory and size of operation.
2. The first step in Part 3, where the lower of average net income and average eligible expenses is used to calculate the payment trigger, came into effect in 2013. Prior to 2013, the payment trigger was calculated solely based on average net income, regardless of the eligible expenses.

also enrolled in AgriStability, payments under the Program are considered an advance towards the Ministry's 40% share of the AgriStability payment.

The Program works differently for the various farming sectors, as follows:

Risk Management Plan—Grains and Oilseed

Grains and oilseed farmers pay premiums based on their average yield, the number of acres to be planted, and their chosen coverage level. Farmers must also enrol in Production Insurance to participate in this program.

Premiums paid by farmers are deposited into the Farmers' Risk Management Premium Fund, which is managed by the Grain Farmers of Ontario. See **Appendix 1** for a description of the role of the Grain Farmers of Ontario.

Farmers receive payments if an insured crop's market price falls below the industry-average cost of producing the crop. Payments are initially made from the provincial funding allocation for each commodity type until the full amount is spent. Once Ministry funding is exhausted, payments are drawn from the Farmers' Premium Fund. As of March 31, 2017, the Fund for the grain and oilseed sector had a balance of $15 million.

Risk Management Plan—Livestock

The plan for the livestock sector—specifically cattle, hogs, sheep and veal—also works like insurance, in that farmers pay premiums based on the number of animals insured and the coverage level chosen, which can be 80%, 90% or 100%.

Premiums paid by farmers are deposited into the Farmers' Risk Management Premium Fund, which is managed by each commodity group—Beef Farmers of Ontario, Ontario Pork, Ontario Sheep, and Veal Farmers of Ontario. See **Appendix 1** for a description of the role of the various commodity groups.

Farmers receive payments if market prices for their livestock fall below the industry-average cost of raising the animals. Payments are initially made from the provincial funding allocation for each commodity type until the full amount is spent. Once Ministry funding is exhausted, payments are drawn from the Farmers' Premium Fund. As of March 31, 2017, the Fund for the livestock sector had a balance of $18.3 million.

Risk Management Plan—Fruits and Vegetables

The plan for the fruit-and-vegetable sector works differently from the others, and more like AgriInvest, in that farmers make contributions, matched by the Ministry, to individual accounts.

Farmers can make an annual contribution to an Agricorp-managed account up to a maximum based on a percentage of their eligible net sales. Because of the annual funding cap, the portion that is matched by the Ministry depends on the number of farmers participating and the amount of contributions in any given year.

To receive payments, farmers must submit a withdrawal request to Agricorp for all or a portion of the balance in their individual account.

Review and Appeal Process

Farmers who disagree with Agricorp decisions in the three plans above must submit an amendment request to Agricorp explaining why they disagree. If Agricorp denies the amendment request, farmers may ask for a review by the Business Risk Management Review Committee. See **Appendix 1** for information about the Committee. The Committee's recommendations are not binding; Agricorp can accept part or all of the recommendations, or reject them outright.

Appendix 2 summarizes the number of reviews and appeals related to the Ontario Risk Management Program in the last five years.

2.3.5 One-Time Farm-Support Programs

The Ministry and/or the federal government may occasionally provide one-time aid to, for example, help farmers recover from catastrophic weather events and/or economic crises. Such programs may be jointly funded by the two governments, or solely funded by Ontario. **Appendix 3** lists the various one-time farm-support programs delivered over the last 10 years to farmers in this province.

2.4 Cost-Sharing Program for Strategic Initiatives

The Strategic Initiatives program is intended to encourage innovation and increase competitiveness in the agricultural sector by funding eligible recipients to implement best farm-management practices. Farmers, including those who also process their own commodities (for example, a strawberry farm that also produces jam) can apply for funding under six focus areas as described in **Figure 10**.

The Ministry administers the cost-sharing program for food processors, and has contracted with the Ontario Soil and Crop Improvement Association (Association) to deliver the Strategic Initiatives program for farmers. See **Appendix 1** for information about the Association.

Merit-Based Application-and-Approval Process

To apply for funding under Strategic Initiatives, farmers and food processors must submit a completed application form and any documentation required for the particular focus area. The application must describe the proposed project and expected outcomes, the significant milestones to completion, the resources to be used, and the expected costs to complete the project.

The Ministry and the Association evaluate applications using merit-based criteria. This means that only the "very best" projects—that is, those with the highest scores—are approved for funding. Eligible projects that do not meet the minimum approval score will not be funded. Because funding is capped every year, the minimum approval score varies with the number of applicants.

Farmers and food processors cannot appeal decisions by the Ministry and the Association regarding their funding applications.

3.0 Audit Objective and Scope

Our audit objective was to assess whether the Ministry of Agriculture, Food and Rural Affairs (Ministry) and Agricorp have effective systems and processes in place to:

- design and deliver farm-support programs efficiently and economically in compliance with relevant legislation, regulations, agreements and policies, in such a way that the programs support farmers in the management of their risks; and
- evaluate and publicly report on the strategic and operational effectiveness of farm-support programs.

Before starting our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 4**). These criteria were established based on a review of applicable legislation, directives, policies and procedures, internal and external studies, and best practices. Senior management at the Ministry and Agricorp reviewed and agreed with the suitability of our audit objective and related criteria.

Our audit focused on the following farm-support programs that provide direct financial assistance to farmers: AgriStability, Production Insurance, the Ontario Risk Management Program, AgriInvest, and the Cost-Share Program for Strategic Initiatives. We did not audit the supply-management system governing dairy, poultry and egg production across Canada.

We conducted the audit between January 9, 2017, and July 7, 2017. We obtained written representation from the Ministry and Agricorp that, effective November 15, 2017, they had provided us with all the information they were aware of that could significantly affect the findings or conclusion of this report.

We did our work primarily at the Ministry and Agricorp head offices in Guelph. In conducting our work, we reviewed applicable legislation,

Figure 10: Focus Areas Eligible for Funding under Strategic Initiatives Program

Prepared by the Office of the Auditor General of Ontario

Focus Areas	Nature of Projects	Examples of Projects	Maximum Funding per Project ($)*
Environment and climate-change adaptation	Help farmers reduce potentially harmful environmental effects by: • using water, energy, etc. more efficiently; and • proactively adapting to climate change and more frequent weather extremes	• Improvements to liquid-manure storage • Specialized and dedicated composting equipment	1,000–31,500
Business and leadership development	Help farmers better understand farm finances and production costs, and develop improved business and leadership skills to plan for succession, expansion or diversification, financial-risk management, human resources, or overall business management.	• Making business plans operational • Third-party help to develop plans for succession, expansion, human-resources, etc.	2,500–30,000
Market development	Help farmers understand and plan marketing approaches for new markets, meet industry standards or certification requirements, implement a marketing plan, and create new products or processes.	• Third-party help to identify market opportunities • One-time testing of products to meet established standards or market requirements	2,500–30,000
Animal and plant health	Enhance farmers' ability to prevent outbreaks of infectious animal or plant disease, and reduce the spread of disease and pests. Also assist with implementing national or industry standards for bio-security.	• Health/pest risk assessments • Development of bio-security, disease/pest response, and/or operational procedures • Development of an integrated pest-management plan	2,500–25,000
Labour and productivity enhancement	Increase farmers' understanding of and planning for labour productivity, improve equipment, technology, systems, policies and procedures. Projects aim to encourage improvements in personnel performance, automation, waste reduction and down time.	• Third-party help to develop plans focused on labour productivity objectives and strategies • Third-party help to increase farmers' understanding of labour productivity	2,500–30,000
Assurance systems	Help farmers improve food safety, traceability and animal welfare.	• Food-safety assessments and audits • Training and education • Equipment and facility modifications to support food-safety practices • Laboratory testing	1,500–100,000

* Maximum amount of funding varies depending on the type of project.

agreements, program guidelines, policies, relevant files and other information. We also interviewed Ministry and Agricorp staff. In addition, we met with representatives from the Ontario Soil and Crop Improvement Association, which is responsible for delivering cost-sharing programs for strategic initiatives.

We met with experts in agricultural economics, and with representatives from the Ontario Federation of Agriculture, Beef Farmers of Ontario,

Ontario Pork, Ontario Fruit and Vegetable Growers Association, and Grain Farmers of Ontario, to obtain their perspectives on the farm-support programs in Ontario. We also interviewed an agricultural economics and policy expert from the Organisation for Economic Co-operation and Development to gain an understanding of best practices in agricultural risk management programs.

At our request, the Ontario Federation of Agriculture included our survey on farmers' attitudes toward Ontario farm-support programs in a newsletter to its members, and 930 of them from various parts of the agriculture sector in the province responded. See **Appendix 5** for a summary of the survey results.

As well, we met with representatives of the federal Department of Agriculture and Agri-Food to understand the federal government's delivery of other farm-support programs and its opinion on the Ontario Risk Management Program.

We reviewed the relevant audit report issued by the province's Internal Audit Division in determining the scope and extent of our audit work.

4.0 Detailed Audit Observations

Ontario farms differ from each other in terms of the commodities they produce and in their financial situation, and therefore in their ability to withstand fluctuations in income. As shown in **Figure 3**, almost two-thirds of the 46,900 farms in Ontario earned less than $100,000 from the sale of their agricultural products.

The various business-risk-management programs are intended to work as a suite to provide farmers with choices of programs that best suit their individual operations. However, the House of Commons Standing Committee on Agriculture and Agri-Food stated in its March 2017 report on farm-support programs that some programs, such as Production Insurance and AgriInvest, have been more successful than others. Our audit found that flaws in the design of some programs limit the ability of the entire suite to provide appropriate support to help all farmers manage their risks. Our specific observations are described in **Sections 4.1** to **4.3**.

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

The Ministry of Agriculture, Food and Rural Affairs (Ministry) spends $100 million annually on the Ontario Risk Management Program (Program), or about 40% of its total funding for farm-support programs from 2011 to 2015. The Program was born out of extensive consultation between the Ministry and the various commodity groups because of perceived gaps in the other Canada-wide business-risk-management programs.

According to the Ministry, farmers favour the Program because they receive payments quickly and they believe it helps them secure bank loans to finance operations. However, our review of program design and analysis of payments in the last five years indicate that the Program is not based on the actual needs of farmers.

4.1.1 Little Connection between Individual Farm Incomes and Payments

The Program is intended to help farmers reduce market-related fluctuations in their income—that is, to stabilize their income when proceeds from sales of their commodity are less than the average cost to produce the commodity. However, we found that there is little correlation between individual farmer incomes and payments from the Program.

Some Farmers Paid Even in Profitable Years

Farmers in the livestock and grains-and-oilseed sectors are paid based on the industry-average production cost, which does not necessarily reflect each farmer's actual cost to produce the commodity. Fruit-and-vegetable growers, on the other hand, may request payments for any reason.

To understand whether program payments were actually linked to the financial situation of individual farms, we analyzed the income and expense information of farmers who received payments from 2011 to 2015. We found that only half actually experienced either a drop in income from the previous year or a loss in the year they received payments, which averaged $11,000 each.

We also found that 30% of payment recipients from 2011 to 2015 (average payment: $7,200 each) actually reported higher income in the year they received the payment than in the previous year. These farmers reported median net income of $30,000, up to a maximum of $13.6 million on their income-tax filings to the Canada Revenue Agency. In other words, recipients received payments even though they did not incur any reduction in income, which is contrary to the stated intent of business-risk-management programs.

For example, 24% of the 4,900 payment recipients reported positive operating income in 2015 and also reported that their operating income increased by an average of $106,000 (44%), compared to 2014. **Figure 11** shows the top program recipients with the highest incomes in 2015 who also reported increases in income from 2014 to 2015. The Ministry advised us that providing support to already-profitable farms is an unintended consequence of the "industry-average" aspect of the Program—that is, the Program was not designed to improve profitability—and that it planned to review the Program's design.

The Ministry's own review of the Program in 2016 found that there was no correlation between the size or timing of program payments, and net income, because payments are based on industry averages rather than individual performance. In addition, internal Ministry documents corroborate the results of our analysis, acknowledging that program payments "are not a true reflection of actual need." Payments made with no correlation to a farmer's individual situation do not stabilize income as intended.

The Ministry advised us that, in order to provide payments more quickly, the Program was intentionally designed so as to not reflect individual farm performance. Under the current Program design, farmers are only required to report the amount and value of their commodity sales or yield. The Ministry then uses the industry-average market price

Figure 11: Ontario Risk Management Program Recipients with Highest Net Income in 2015

Prepared by the Office of the Auditor General of Ontario

Rank	2014 Net Income ($)	2015 Net Income ($)	2015 Ontario Risk Program Management Payment ($)
1	1,221,396	13,673,292	30,914
2	4,088,016	7,154,098	162
3	3,627	6,202,452	44,876
4	2,834,435	3,764,760	1,652
5	1,301,488	2,900,123	436,996
6	2,585,000	2,737,460	274,578
7	(31,692)	2,558,734	7,829
8	942,684	2,387,787	94,476
9	(308,253)	2,270,581	9,813
10	487,358	2,156,794	7,871
Average	**1,312,406**	**4,580,608**	**90,917**

* The list below represents those Program recipients with the highest 2015 net income who also reported an increase in their net income from 2014 to 2015.

to calculate the farmers' sales income. Program payments are then calculated as the difference between the farmers' income from sales, and the industry-average production cost. If payments were to be based on the farmers' actual production costs, farmers would have to provide information similar to what they report on their income-tax return. This would include, for example, costs associated with purchasing feed, animals, and seeds, as well as the costs of running the farm. The additional information would increase the time needed for farmers to submit the required information and for Agricorp staff to review applications, which would then delay the payments.

"Industry Average" Not Actually Representative of Industry

Industry-average production costs are actually calculated using production costs at only a small sample of farms—from as few as six to a maximum of 122 livestock farms, depending on the commodity.

For example, the 2015 industry-average production cost for a cow-calf cattle operation, which raises cattle to produce calves for sale, was based on a sample of six farms. In order to be included in this sample, a farm must earn over 80% of its sales from the particular commodity. Because most farms earn income from multiple commodities, the sample sizes are usually small.

Neither the Ministry nor Agricorp could tell us how many cattle farmers in Ontario have cow-calf operations. However, there were approximately 670 Program participants with cow-calf type operations in 2017. This means that the "industry average" was based on the production costs of less than 1% of cow-calf operators enrolled in the Program.

In 2015, the Reference Committee for the cattle sector also acknowledged the issue with the small sample sizes used to calculate the industry average. The Committee is made up of Ministry experts and industry representatives who meet quarterly to establish program components and identify issues that affect the delivery of the Program. At the time of our audit, the Ministry had not identified an alternative method to calculate an industry-average cost of production that actually reflects the average production cost for all farms that produce the commodity.

The Ministry advised us that it is challenging to calculate a representative "industry average" because of the vast differences among farming operations in the province. This further calls into question the current method of using industry average costs to calculate Program payments. During our audit, the Ministry informed the various commodity groups that the Program would be re-designed to shift away from the industry-average method. Changes are expected to be implemented in 2019.

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.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. The Ontario Risk Management Program (Program) was designed to address gaps in the national suite of business-risk-management (BRM) programs, including timeliness of program payments. The Federal-Provincial-Territorial (FPT) BRM review will bring options forward to the 2018 FPT agricultural Ministers' meeting to address shortcomings in the national suite. The Ministry will continue to champion a timely and comprehensive review. The concurrent evaluation of the Program will revisit the current method of calculating cost of production in a way that best complements the national suite and better targets needs.

4.1.2 Ontario Risk Management Program Benefits Large Farms

The design of the Ontario Risk Management Program (Program), based as it is on industry-average production costs, favours efficient farms with lower production costs than the industry-average. Cost efficiencies can be more easily achieved by large-scale farmers due to greater economies of scale. As a result, large farms receive payments based on the higher industry-average production costs even though it cost them less than that to produce their commodity.

This is further reflected in program participation rates. A 2016 Ministry analysis found that 60% of farms with gross receipts over $1 million participated in the Program, compared to just 20% of farms with gross receipts under $100,000.

We 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 one-third of the files we reviewed, farmers reported lower production costs than the industry average. On average, the cost of production for each farm was 26% lower than the industry average. For example:

- One hog farmer received $827,000 in payments in 2015. The farm's actual cost of production was $36.4 million, but the industry-average cost of production for an equivalent-sized farm, used to calculate the payment, was $66.3 million. Substituting the farm's actual cost of production for the industry average would have resulted in the farmer receiving no payment at all.
- One cattle farmer received $497,000 in payments in 2015. The farm's actual cost of production was $22.5 million, but the industry-average cost of production for an equivalent-sized farm, used to calculate the payment, was $38 million. Substituting the farm's actual cost of production for the industry average would also have resulted in the farmer receiving no payment.

To determine the extent to which large farms have benefitted from the Program, we analyzed program participation and payment information from 2011 to 2015. We found that although farms with gross receipts over $1 million make up only 20% of program participants, they received three-quarters of all payments. While the disproportionate payments can be attributed to another design component of the Program, which bases payments on the number of units of commodities enrolled, it further highlights why large farms potentially benefit more from the Program: large-scale farms have the capacity to increase production with lower per-unit costs.

Our survey of farmers also confirms these observations. Only 14% of respondents with gross revenues of less than $10,000, and 24% of respondents with gross revenues of $10,000 to $99,999, indicated that the Program helped them manage their risks. In comparison, almost half of respondents with gross revenues of $500,000 or more indicated that the Program did help them manage their risks.

According to the Organisation for Economic Co-operation and Development (OECD), farmers with sufficient working capital can tolerate fluctuations in their annual incomes. Based on this, and on our analysis, support payments are not being directed to those farmers most likely to need them.

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.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that all farm businesses should be treated equitably. As future opportunities for the Program are considered concurrently with the Federal-Provincial-Territorial (FPT) business-risk-management (BRM) review, better methods to calculate and target program payments to different farming operations (including farm size) across the province will be considered.

The Program evaluation will be completed in concert with the BRM review. Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.1.3 Unclear Eligibility Rules for Livestock Operations Result in Overpayments

Since 2011, when the Ministry launched the Ontario Risk Management Program (Program), Agricorp has identified 15 farmers who were incorrectly paid a total of over $2 million because of unclear eligibility rules for livestock operations.

The Order-in-Council that created the Program states that "the farmer must own and produce cattle in Ontario" to be eligible for the Program, and farmers have interpreted this to mean having legal title to the cattle.

However, according to the Ministry and Agricorp, the ownership rule refers to having ownership of the risks related to raising and selling the cattle. In the livestock sector, the farmer who has legal title to the cattle is not necessarily exposed to the risks normally associated with legal ownership, because livestock farmers may be involved in a variety of business arrangements that include:

- **Custom-feeding arrangements**, in which the legal owner sends the cattle to a commercial feedlot that specializes in feeding and managing animals (custom-feeder) until they are ready for slaughter. Depending on the terms of these arrangements, the custom-feeder may be exposed to risks related to raising the cattle—for example, rising feed costs.
- **Joint-venture arrangements**, in which an investor purchases an interest in cattle that are legally owned by a farmer. In this case, both the investor and the legal owner are exposed to risks related to raising and selling the cattle.
- **Leasing arrangements**, in which the legal owner may lease the animals to another farmer (the cattle operator), who has full control and responsibility for management. In this case, the cattle operator is exposed to risks related to raising the cattle, but the legal owner may be exposed to risks related to selling the cattle.

Figure 12 provides actual examples of cases in which overpayments by the Program resulted from these types of arrangements.

One of the examples in **Figure 12** shows the Ministry and Agricorp have been aware of the potential for misinterpretation of the livestock ownership rule since 2011. In 2014, Agricorp clarified the definition of ownership in the publicly-available Program handbook to include "the right of possession of livestock and their associated risks" and that "Agricorp considers ownership, price risk and production risk in determining eligibility." However, the clarification still falls short because the handbook does not define "price risk" or "production risk."

In addition, Agricorp has not identified the various types of livestock business arrangements that may affect farmers' eligibility; nor has it identified which farmers are involved in such arrangements. Our analysis of income-tax data from the Canada Revenue Agency found that nearly 200 farmers reported custom-feeding income and/or expense on their tax returns in the last five years. This suggests there could be additional overpayments by the Program related to the livestock ownership rule that Agricorp has not yet identified.

Figure 12: Examples of Overpayments Related to Livestock Ownership Rule
Prepared by the Office of the Auditor General of Ontario

Joint-Venture Arrangements

In 2014, Farmer A informed Agricorp that Farmer B had applied for payment on cattle owned by Farmer A. Agricorp conducted an audit involving several farm corporations owned by Farmer A and 18 other farmers who had invested in joint ownership of the cattle with Farmer A.

The audit found that Farmer A and some investors had received payments for the same cattle from 2011 to 2014. Agricorp calculated that Farmer A and the investors were overpaid by more than $200,000 during that period. At the time of our audit, $25,000 of the overpayment was still outstanding.

Custom-Feeding Arrangements

Before enrolling in the Ontario Risk Management Program in 2011, Farmer C, who was in a custom-feeding arrangement with Farmer D, contacted Agricorp to inquire whether their cattle would be eligible for the Program. Agricorp informed Farmer C that their cattle appeared to be eligible. In 2011, Farmer C received over $790,000 in program payments.

Agricorp's program audit group later found that over $490,000 of the payment was actually for ineligible cattle because Farmer D, who bore the risks of raising the cattle, also received program payments of $415,000 for the cattle. Farmer C appealed the decision and stated an intention to bring the matter to the Business Risk Management Review Committee.

The Ministry and Agricorp decided to pay both farmers for the same cattle due to the misunderstanding. As a result, the two farmers were paid over $2.4 million for the same cattle in 2011 and 2012.

Custom-Feeding Arrangements

A 2012 Agricorp audit found that Farmer E was in a custom-feeding arrangement, also with Farmer D above, and therefore received an overpayment of $15,000 for ineligible cattle.

As with the above example, Farmer E disputed the results of the audit and stated that the objective of the Ontario Risk Management Program, as indicated in the audit report, was not the official criteria or objective listed in the Order-in-Council. Farmer E stated that the audit report's statement that the Program was intended "to help producers who incur production risks and contribute to the actual raising of their commodity" was merely an opinion.

Unlike the above example, however, Agricorp stood by its decision and collected the overpayment.

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

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation. Agricorp will further identify types of livestock (cattle) financial arrangements for the Program that have the greatest elements of risk for program eligibility.

Agricorp has completed the clarifications to program guidelines and eligibility requirements and a communications plan will be developed to share the information with the livestock industry for the 2018 program year.

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.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation. Agricorp will further identify farm operations involved in complex financial arrangements for the Program. Claims for operations with these types of arrangements will be subject to enhanced review for the 2019 program year.

4.1.4 Federal Government Does Not Support Ontario Risk Management Program

The Ontario Risk Management Program (Program) is intended to complement existing business-risk-management programs—AgriStability, Production Insurance and AgriInvest. However, the federal government does not support the Program, and has repeatedly advised the Ministry that it would not provide funding for it, because the Program "contradicts the objectives" of national business-risk-management programs.

Agriculture and Agri-Food Canada (Agriculture Canada) advised us that the Program is not consistent with the "whole-farm approach" of the current suite of national business-risk-management programs, because it provides protection for a specific type of risk (i.e., market-related) and does not consider the performance of the entire farm operation.

The OECD recommends that farm-support programs take a "holistic approach" to agricultural risk management by considering all risks and their relationship to each other. This is because "risks in agriculture are interconnected, sometimes compounding, sometimes offsetting each other." For example, the impact of higher feed costs (i.e., production risk) is mitigated if the selling price of hogs also increases; it is the net impact on the farm's income that matters.

The Ministry originally intended the Program to complement AgriStability. By participating in both programs, farmers have access to a broad level of support to protect them from losses. In fact, the 2014 survey by the Ontario Federation of Agriculture indicated that 63% of respondents felt that participating in both AgriStability and the Program provided more comprehensive risk management for their farm operation. Despite this, in 2015, the Ministry eliminated the requirement to participate in AgriStability, apparently after strong industry pressure. According to petitions submitted by various commodity groups, the requirement that farmers participate in AgriStability before they can enrol in the Program limits farmers' flexibility to choose the programs that best meets their individual business circumstances.

We reviewed the participation rates in both the Program and AgriStability to determine how this impacted farmers' decision to participate in each program. We noted that the AgriStability dropout rate doubled, from 7% a year between 2011 and 2014 to 14% between 2014 and 2015. We also noted that one-third of those who left AgriStability continued to participate in the Program. Although recent changes to AgriStability (discussed in **Section 4.2.2** below), which resulted in lower coverage and lower payments, may have contributed to the higher dropout rate, Ministry analyses state that delinking of AgriStability as being a requirement for the Program likely also contributed to farmers opting out of AgriStability.

Currently, only one-quarter of Ontario farms participate in AgriStability. Between 2011 and 2015, participation fell by nearly one-third. The decrease in AgriStability participation means that fewer farms have the necessary protection against significant declines in income, therefore limiting AgriStability's ability to provide support to farmers. In addition, the Ministry has estimated that lower AgriStability participation has resulted in $6 million to $15 million less in federal funding to Ontario farmers.

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.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. The Federal-Provincial-Territorial (FPT) Business Risk Management (BRM) review will revisit and confirm FPT BRM principles prior to assessing options to be brought to FPT agricultural ministers. As options to update the design of the Program are considered, they will be assessed against these principles.

The Program evaluation will be completed in concert with the BRM review. Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.2 Low Farmer Participation Limits AgriStability's Capacity to Provide Support

AgriStability bases payments on whole-farm income instead of specific commodities or risks (for example, losses due to severe weather or low market price). As such, it is more in line with international best practices. However, low and decreasing participation in AgriStability diminish its ability to effectively help farmers manage their own risks.

The number of farmers participating in AgriStability has decreased by half in the last 10 years. Between 2011 and 2015 alone, participation fell by nearly one-third. Farmers have cited insufficient support from AgriStability and delays in payments as reasons for dropping out. In fact, a 2014 survey by the Ontario Federation of Agriculture indicated that 75% of respondents did not feel AgriStability was responsive to their needs. This is consistent with the result of our survey of farmers, in which 76% of respondents indicated that AgriStability did not help them manage risks, or were uncertain about whether AgriStability helps them manage risks.

4.2.1 Farmers Do Not Benefit Equally from AgriStability

From 2013 to 2015, 10% of the over 21,000 grains and oilseed farmers' (the largest agricultural sector in Ontario) applications for AgriStability actually triggered payments, compared to 21% of cattle farmers' applications, despite more grains and oilseed farmers experiencing large declines in net income over the same period.

The Ministry advised us that payments depend on how the individual farming sectors perform in a given year. For example, AgriStability payments would increase in more challenging years for a particular sector. We analyzed income-tax data from the Canada Revenue Agency to determine how each sector performed, and found that from 2013 to 2015, over 40% of grains and oilseed farmers experienced at least a 30% drop in net income. In comparison, 28% of cattle farmers reported a decline in income of at least 30%. This indicates that although more farmers in the grains and oilseed sector experienced a large decrease in net income, fewer farmers received AgriStability support.

Grains and oilseed farmers have fewer eligible expenses since their primary costs—equipment purchase and maintenance—are not eligible under AgriStability. As a result, they are more likely to be affected by the "limiting rule," which stipulates that if a farm's eligible expenses are less than its average net income, then the AgriStability payment is based on the lower eligible expenses rather than the average net income. The farmers would therefore need to incur a bigger drop in net income to receive a payment. In comparison, the primary costs of cattle farmers—purchase of animals and feed—qualify as eligible expenses. The "limiting rule" was introduced in 2013 to reduce support to farmers who may only be experiencing short-term fluctuations in profits. The Ministry stated that its intent is to direct payments away from farmers where the program is likely compensating for "lost profit" and towards those with insufficient revenue to pay their expenses. However, the rule has affected farmers differently based on the nature of their expenses.

To determine how the limiting rule impacts different types of farming operations, we analysed AgriStability applications and payments since the limiting rule came into effect in 2013. We found that from 2013 to 2015, for example, nearly three-quarters of grains and oilseed applications were affected by the limiting rule, resulting in applicants either receiving a lower payment or no payment at all. In comparison, only 21% of cattle applications were affected by the limiting rule.

Our findings are consistent with those of the Ministry's analysis of 2013 AgriStability applications. The Ministry found that 73% of grains and oilseed applications were affected by the limiting rule, compared to only 20% of cattle applications. Grains and oilseed farmers received $8.3 million for 2013, but the Ministry estimated that payments would have been $30.7 million—more than three-and-a-half times as much—without the limiting rule.

A 2016 Ministry review found that over 60% of the farmers who dropped out of AgriStability in 2015 were from the grains-and-oilseed sector. At the June 2017 meeting of federal, provincial and territorial governments, held to discuss the next agricultural framework, the governments acknowledged that the limiting rule is "treating sectors inequitably," which in turn diminishes AgriStability's ability to respond to farmers' needs. The inequity is also not in line with one of the principles of the *Growing Forward 2 Framework*, which states that programs must "treat producers and other stakeholders equitably across commodities and regions."

In 2014 and 2016, internal Ministry documents also noted that the limiting rule had unintended consequences for farmers who invested in technology to lower their direct costs, those who consciously lowered their direct costs to remain competitive, and those who must keep their direct costs low as a condition of their bank loans. The limiting rule also does not take into account farming practices that are intended to reduce farm expenses, for example, when farmers grow their own feed for their livestock. In other words, farmers with low eligible expenses will be affected by the limiting rule regardless of the reason for the low expenses.

At the time of our audit, the federal-provincial-territorial governments had announced that the limiting rule would be restricted so that the amount of eligible expenses that is used to calculate the AgriStability payment cannot be less than 70% of the farm's average net income.

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.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. The Federal-Provincial-Territorial (FPT) business-risk-management (BRM) review will include an early focus on addressing shortcomings in the national suite related to market risk, with a specific focus on the AgriStability program. This will include assessing the current balance of support between sectors, types of risk and regions.

In the interim, changes to AgriStability agreed to by ministers this past summer, for implementation in 2018, are intended to better respond to losses experienced by capital-intensive businesses (for example, grains and oilseed farmers) and businesses with relatively lower expenses (for example, livestock producers that grow their own feed). These changes are intended to increase program participation.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.2.2 Changes to AgriStability in 2013 Lowered Coverage and Payments to Farmers

From 2013 to 2015, 10% of farmers who participated in AgriStability triggered a payment. The median payments per year ranged from $4,200 to $5,700. In fact, **Figure 6** shows that in 2015, over 60% of AgriStability recipients received $10,000 or less.

AgriStability is Intended to Compensate for Disaster-Level Loss

The *Growing Forward 2 Framework* brought several changes to AgriStability beginning in 2013, which made the program more complex, and resulted in less coverage and lower payments to farmers. The intent of these changes was to reduce expenditures for business-risk-management programs and shift funding to strategic initiative programs. In addition, the Ministry noted that the objective of these changes was to provide support only for "disaster-level income declines" and compensate farmers for losses rather than lower profits. Among the changes:

- The payment trigger rose, to 30% from 15%, meaning that farmers would have to experience a drop of more than 30% in their current-year net income compared to their average net income before qualifying for payments. Prior to the change, payments were triggered when a current-year net income declined by more than 15% from an average net income.
- The portion of the net income reduction for which farmers are compensated has also decreased, to 70% from 80% of the difference between the payment trigger and the current-year net income. Prior to the change, payments were based on tiers providing different levels of support depending on the degree of loss.
- If a farm's eligible expenses are less than its average net income, then the AgriStability payment is based on the amount of the lower eligible expenses rather than the net income (known as the limiting rule).

Figure 13 illustrates the impact of the above changes in AgriStability using the example of a farm with an average net income of $100,000, average eligible expenses of $90,000, and current-year net income of $60,000. The chart shows that the program changes resulted in a much lower AgriStability payment—$2,100, compared to $18,500 before the changes.

Figure 13: Impact of Changes in AgriStability under *Growing Forward 2* Framework

Prepared by the Office of the Auditor General of Ontario

	Before 2013 Change	After 2013 Change
Payment Rules and Formula		
Payment trigger	Current year net income drops below 85% of average net income	Current year net income drops below 70% of the average net income OR average eligible expenses, whichever is less
Payment calculation*	70% of net income decrease from 15-30% of average net income PLUS 80% of net income decrease over 30%	70% of the average net income OR average eligible expenses, whichever is less
Application of Rules and Formulas Using an example of a farm operation with an average net income of $100,000, average eligible expenses of $90,000, and net income for the year of $60,000.		
Average net income	**$100,000**	**$100,000**
Average eligible expenses	**$90,000**	**$90,000**
Net income[2] that triggers payment	Lower than $85,000 ($100,000 × 85%)	Lower than $63,000 ($90,000 × 70%)
Net income for the year	**$60,000**	**$60,000**
Payment triggered?	Yes (net income is below $85,000 trigger)	Yes (net income is below $63,000 trigger)
AgriStability payment	**$18,500** ($85,000 – $70,000) × 70% + ($70,000 – $60,000) × 80%	**$2,100** ($63,000 – $60,000) × 70%
AgriStability payment as a % of the reduction in net income	**46.25%** $18,500 ÷ ($100,000 – $60,000)	**5.25%** $2,100 ÷ ($100,000 – $60,000)

* Net income must be below the average net income or eligible expenses ($85,000 before the 2013 change or $63,000 after the 2013 change in the example above) to actually trigger a payment.

In 2015, the federal, provincial and territorial governments assessed the impact of changes to AgriStability on a sample of Canadian farmers, and found that one-third of applications would have been paid prior to 2013, compared to only 14% under the current rules. Further, the total value of payments dropped by almost two-thirds, from $529 million to $186 million.

We analyzed AgriStability payments since 2013 to understand how the changes affected Ontario farmers. We found that the limiting rule has affected over half of the more than 44,000 applications since 2013, resulting in many farmers either receiving a lower payment than they would have prior to the changes, or none at all. Specifically, almost 30% of the 5,500 payment recipients received $18 million less in benefits. On average, each farmer received 50% less than they would have without the limiting rule. In addition, 4,200 farmers who did not receive a payment would have received $60 million ($14,300 on average) without the limiting rule. For example:

- One farmer received $455 to compensate for a $174,000 (or 64%) drop in their 2013 net income from the average net income. Without the limiting rule, the farmer would have received $64,687.
- Another farmer received $877 to compensate for a $1.39 million (or 58%) drop in their 2015 net income from the average net income. Without the limiting rule, the farmer would have received $472,055.

As noted above, these changes were intended to provide support only for "disaster-level income declines." However, a February 2016 report by the Canadian Federation of Agriculture on the current suite of Canada-wide farm-support programs stated that AgriStability cannot be limited to providing disaster support. It further states that farmers consider a 15%-or-more drop in income (compared to their average) that results in a lack of profitability that year as a “significant income loss.” These conflicting statements demonstrate the gap between farmers’ expectation of the government’s role in farm risk management and the government’s expectation of the level of risk that farmers must manage themselves.

Farmers Cannot Predict if They Will Receive Payments

A 2014 Ontario Federation of Agriculture survey found that 97% of respondents said they could not predict how much AgriStability support they would get.

As illustrated in **Figure 9**, there are many steps in calculating AgriStability payments. This simplified illustration still does not take into account the various adjustments that Agricorp staff must make to account for:

- changes in the level and value of inventory; and
- changes in the farm’s operations, productive capacity, ownership, size, practices, and type of commodity farmed.

These adjustments further complicate the payment calculation, and make it difficult for farmers to accurately estimate their AgriStability payment.

A 2017 federal internal audit evaluation report also highlighted farmers’ difficulties understanding AgriStability, stating that, of those interviewed, “a substantial number rely on their accountants to complete their AgriStability application.” Our review of AgriStability participation from 2011 to 2015 found that, on average, 2,800 farmers each year (or 16%) pay their fees but do not submit the required forms to be eligible for payment. Although the Ministry and Agricorp have not investigated why, they advised us that it is likely because farmers may not expect a payment, and so do not want to spend time or money on the paperwork.

The House of Commons Standing Committee on Agriculture and Agri-Food stated in its March 2017 report on farm-support programs that “in order to be truly effective, any [business-risk-management] program must be both predictable and responsive in a timely manner to ensure [farmers] can make decisions to react to market conditions.”

This is further supported by the Canadian Federation of Agriculture’s 2017 report on farm-support programs, which said that “AgriStability payments must be calculated in a transparent and straightforward fashion that allows [farmers] to predict and bank upon impending payments.”

Our discussions with various commodity groups indicate that it is important for farmers to be able to estimate how much program support they will receive because it helps them plan their operations, manage their cash-flow requirements, and determine if they need to seek financing. And because farmers cannot estimate their AgriStability payments, the program may not be effectively helping farmers manage their risks.

We highlighted similar concerns about the predictability of AgriStability payments in our *2008 Special Report* on farm-support programs. Since then, Agricorp has enhanced its communications to farmers to better explain the program rules and calculations. Agricorp also now provides details of the various adjustments made to farmers’ reported income and expenses to arrive at the AgriStability payment. However, the current forms of communication do not help with predictability since they only discuss general rules and provide information about the specific adjustments after the farmer’s payment application has been processed by Agricorp.

We noted that the Grain Farmers of Ontario organization has an online tool that helps farmers estimate their potential Ontario Risk Management Program payment. The tool calculates farmers’ potential Program payment using farmers’ estimates. Some accounting firms that help farmers apply for farm support also have software that calculates potential AgriStability payments. Similar tools that use farmers' historical information and allow them to enter their estimated income and expenses to determine how much AgriStability payment they will receive may help enhance the predictability of AgriStability payments.

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; and
- 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.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. Business-risk-management (BRM) programs, as a suite, are intended to support farmers in their individual risk management approaches. Appropriate government and industry risk sharing was foundational to the Federal-Provincial-Territorial (FPT) *Growing Forward 2* mid-term review that was brought to the ministers in the summer of 2016. This analysis will be revisited as part of the FPT BRM review to clarify the level of risk farmers are expected to manage themselves within the context of global market forces and government actions in competing jurisdictions. Appropriate communications to farmers regarding their responsibility for managing risks will follow. The BRM review will include analysing the extent to which BRM programming is contributing to the goals of the new FPT framework.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

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.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. Federal-Provincial-Territorial (FPT) governments recognize that payment predictability is an inherent challenge in the design of programs like AgriStability that are based on individual farm income. The FPT business-risk-management (BRM) review will include an early focus on AgriStability and market risk given concerns that industry has raised, including payment predictability. The Ministry will work with FPT colleagues to explore options to help producers reasonably estimate AgriStability payments.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.2.3 Farmers Do Not Receive Payments in Same Year as Their Loss

From 2011 to 2015, farmers received their AgriStability payments, on average, 10 months after the end of their tax year. For example, only 24 (or 1%) of 2015 AgriStability recipients received their payments (totalling $4.5 million) by the end of 2015. These payments were either the result of a farmer applying for an interim payment or having an early tax year-end.

The delay in payments is due to the design of the program. Agricorp uses income-tax information from the Canada Revenue Agency to calculate

AgriStability payment. For any calendar year, income-tax returns must be filed in April or June of the following year. Agricorp then collects additional information from farmers beginning in June until December at the latest. Agricorp staff begin reviewing the payment application once the required forms and tax information are received. Our review of AgriStability payment applications from 2011 to 2015 found that the time to process an application ranges from less than one day to five years. On average, applications that resulted in payments required almost three-and-a-half months to complete. The processing time includes reviewing income-tax information submitted by farmers and any subsequent review to approve the payment amount, particularly for large-dollar payments.

The OECD, in reference to AgriStability, noted that a "lengthy delay in payments is not a helpful characteristic for a programme that intends to stabilize farm returns," because "delayed payments are not able to help with cash-flow issues that may arise from a bad year, and may arrive when income is in an upswing."

The Ministry advised us that the timing of cash-flow needs varies depending on the type of farming operation. However, farmers who experience a significant loss in the beginning of their tax year may end up waiting nearly two years to receive their AgriStability payment. The OECD noted that delayed compensation may help manage smaller declines in income, but "it can never be appropriate for … short-term shocks."

The results of our survey also highlighted the importance of timely payments. For example, one farmer indicated that "in a growing season (like 2017 so far), where many farmers have lost in the range of 30-80% of their crops due to too much rain, fast-tracking the payments to the farmers would be helpful in being able to keep paying the bills."

Risk of Having to Pay Money Back May Deter Farmers from Applying for Interim Payments

One of the main criticisms that farmers level against AgriStability is the delay in payments, but the Ministry advised us that the delay is the result of a trade-off between timeliness and accuracy. To be accurate, Agricorp requires information from the Canada Revenue Agency, which requires a longer time frame. The Ministry has indicated that interim payments can be an option to deal with the timeliness issue.

Farmers may apply for interim payments if they are experiencing serious cash-flow issues. The interim payment provides farmers with half of the estimated AgriStability payment, which is later deducted from the final AgriStability amount based on the farmers' actual income and expenses. However, our analysis of payments in the last five years found that fewer than 1% of AgriStability participants requested an interim payment—for example, only 42 farmers applied for interim payments in all of 2015.

Neither the Ministry nor Agricorp has determined the reasons for low interim payment application rates. The 2012 federal internal audit report on Agriculture and Agri-Food Canada's delivery of AgriStability offered a possible explanation for the low number of interim-payment applications: because interim payments are based on preliminary figures and estimates, farmers are hesitant to apply for fear that whatever they get on an interim basis may be clawed back later, when final figures are in.

To determine whether there is sufficient basis for this concern, we compared the interim payment to the final calculated AgriStability payment for all interim payments from 2011 to 2015. We found that for 14% of interim payment recipients from 2011 to 2015, the interim payment amount was greater than the final calculated AgriStability benefit, suggesting that the interim payment led to an overpayment. The individual overpayments ranged from \$145 to \$79,000. As a percentage of the interim payment amount, the individual overpayments ranged from less than 3% to 100% of the interim payment amount. On average, the value of the overpayment was 64% of the interim payment.

We also noted that Agricorp calculates all interim payments manually using Excel, which increases the risk of errors. This is because the IT system that Agricorp uses to administer AgriStability does not have the capability to calculate interim payments. This issue is further discussed in **Section 4.5.1**.

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.

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

MINISTRY AND AGRICORP RESPONSE

The Ministry agrees with the Auditor General's recommendation. Interim payments are calculated based on six months of actual information and a producer's projection of the final six months. The Ministry and Agricorp will work with commodity groups to better understand the reasons for low uptake of interim payments and will review options on how to improve producers' estimated projections when in financial distress to improve the accuracy of interim payments. Any associated improvements, including changes to the calculation of interim payments, will be implemented for the 2019 program year.

4.3 Ministry Poorly Equipped to Provide Support during Crises

4.3.1 Existing Programs Likely Insufficient in a Crisis

The Ministry advised us that the intent of the existing suite of business-risk-management programs is to address challenges faced by the agricultural sector without the need for one-time programs. However, based on our review, we found that support provided through existing programs may not be sufficient in a major crisis; additional financial assistance through one-time programs may be required (see **Appendix 3**). Specifically:

- **Low and decreasing participation in AgriStability means fewer farmers have the necessary protection against losses.** The federal-provincial-territorial governments highlight AgriStability as the primary program to address losses caused by market changes. However, three-quarters of Ontario farmers currently do not have protection under AgriStability. The 2016 conference of Federal-Provincial-Territorial Ministers and Deputy Ministers of Agriculture raised concerns that the low participation rate in AgriStability could increase pressures for additional funding in a crisis. Even those farmers who do participate may not have the necessary protection because of recent changes to the program (described in **Section 4.2.2** above).
- **The current suite of programs would not provide support during prolonged crises.** Because AgriStability payments are based on a rolling five-year average net income (i.e., farmers' net income in the most recent five-year-period), farmers are less likely to receive any payment after consecutive bad years. As their average net income decreases due to the bad years, farmers must then experience a much lower net income before they can receive any payment. The Ministry advised us that AgriStability was intentionally designed

to ensure that the government does not support farm businesses that are not viable. Similarly, since Production Insurance payments are also based on a farmer's rolling five- or 10-year average yield, farmers are less likely to receive payments after consecutive years of low yields.

- **Production Insurance is designed to compensate crop farmers only for yield reductions and losses due to adverse weather, wildlife, pest infestation and disease.** It will not protect farmers from losses from low selling prices or high supply prices.
- **The Ministry has capped funding for the Ontario Risk Management Program at $100 million annually, including administration costs.** As a result, the value of payments and the percentage of loss for which farmers are compensated decrease as more farmers apply for funding. In addition, the Ministry has stated that participation in the program is "too low and skewed to larger farmers [discussed in **Section 4.1.2**] to ease pressures for [emergency] support in challenging times."
- **AgriInvest would only cover small income fluctuations.** AgriInvest is a savings-account program in which the federal and Ontario agriculture ministries match farmers' contributions. However, as of January 2017, the median balance in individual farmers' accounts was $2,900, and only 5% of participants had an account balance of over $50,000.

The federal, provincial and territorial governments conducted a "stress test" in 2016 to determine how the Canada-wide business-risk-management programs would respond to extreme weather and market events. The test found that in the event of a 70% drop in net income stemming from a market crisis, AgriStability would cover only 20% of the drop and AgriInvest would fill in some of the gap, leaving farmers to face the remainder without compensation. This suggests existing programs would leave farmers with a need for significant additional support in the event of an emergency.

Our survey also confirmed that farmers do not believe the programs provide sufficient support to help them remain viable during a crisis. As shown in **Appendix 5**, 64% to 82% of respondents either felt that the programs were not sufficient to help them remain viable through crises, or were not certain if the programs were sufficient.

4.3.2 Ministry's Contingency Plan Inadequate to Provide Crisis Support

The Ministry has not developed a contingency plan that would help facilitate support to farmers during a market crisis. As part of the provincial government's emergency-management planning, the Ministry created an incident management plan that can help *contain* emergencies related to farm animal and crop diseases, pest infestation, and food contamination.

While the incident management plan may help to mobilize personnel within the Ministry to respond quickly to emergencies, it is not designed to deal with long-term crises or provide financial support to help the agricultural sector recover from resulting losses. The plan has no criteria that specifies the types of costs covered and the level of support to be provided in an emergency. The plan would also likely not be used during market crises such as those caused by high input costs or exchange rates.

In comparison, New Zealand's *Primary Sector Recovery Framework* integrates emergency-management planning with financial recovery support. The Framework outlines potential financial assistance for small-, medium-, and large-scale events, and incorporates existing social support services.

Existing Disaster-Relief Plan Does Not Cover Long-Term or Market-Related Crises

The *Growing Forward 2 Framework* includes a disaster-relief framework—called AgriRecovery—which outlines the process that the federal and provincial governments may follow in the event of a disaster. AgriRecovery provides financial assistance to lessen the impacts of a natural disaster and help farmers resume operations as quickly as possible. AgriRecovery's scope covers crises related only to natural disasters, such as extreme weather, livestock disease, pest infestation, and environmental contamination. It does not apply to market-related crises.

The Ministry also noted that AgriRecovery is not intended to address recurring disasters or long-term crises. This, despite the OECD noting that climate change is likely to increase the likelihood and frequency of extreme weather events. History also indicates that market downturns or crises can have long-term impacts, such as the downturn that affected the hog industry in the late 2000s due to the high Canadian dollar and high grain prices, or the winding down of the tobacco industry.

In addition, the Ministry's own internal documents state that AgriRecovery would not provide timely support. 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 approvals process" to assess eligibility for funding and obtain funding from the federal government. Instead, it chose to create a new two-year program called the Beekeepers Financial Assistance Program.

The OECD stressed the importance of having "a set of pre-established procedures … explicit triggering criteria … and clear definition of the type and level of assistance" to help governments manage a crisis.

Most Serious Farm Losses Caused by Market Crises

A 2011 OECD study of major catastrophes faced by Canadian farmers found that the most serious losses to which governments have had to react were market-related. This is also true in Ontario.

As seen in **Appendix 3**, the largest one-time program in the last 10 years was the 2007/08 Ontario Cattle, Hog and Horticulture Payment (Payment), which provided $139 million to over 13,000 farmers who experienced large financial losses due to poor market conditions. **Appendix 6** describes the problems encountered by the Ministry in delivering the Payment. A contingency plan could help inform the design of future one-time programs to prevent similar problems.

A group of farmers is currently pursuing legal action against the Ministry and Agricorp, alleging that the Payment based benefits on outdated information that did not reflect the extent of the farmers' loss at the time.

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

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that there are opportunities to improve business-risk-management (BRM) support to producers in times of market crisis. The BRM suite of programs is intended to be capable of supporting producers without the need for additional ad hoc support. The Ministry agrees that the current suite, given current levels of participation in the AgriStability program, may leave some producers that have chosen not to participate vulnerable to an unexpected market event.

Beginning with the 2018 program year, the AgriStability program will introduce a new mechanism that will give Ontario the ability to work with the federal government to allow producers late access to the program in the event of a crisis that develops after normal application deadlines have passed. The details of the mechanism and associated criteria will be determined with Federal-Provincial-Territorial (FPT) partners in the coming months.

The FPT BRM review will include stress-testing how the current suite will respond to significant events, and will look for opportunities for improvement. Also, options will be tabled to increase program participation and to improve timeliness of support, including those provided through the AgriRecovery process. Within the context of this review, the Ministry will work with its partners to document a crisis-response plan.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.4 Overpayments Occur Due to Incorrect and Misleading Information from Farmers

4.4.1 Payments Based on Farmers' Self-Reported Information

Payments under the business-risk-management programs are based on income, expenses, and other financial information reported by farmers mainly through their tax returns. Farmers are not required to provide independent documentation, such as sales invoices and purchase receipts, to support the information they report to Agricorp for Production Insurance and the Ontario Risk Management Program.

Due to the lack of independent documentation to verify farmer-reported information, Agricorp staff can only assess the reasonableness of such information when reviewing applications. A 2016 Ontario Internal Audit report noted that when farmers are required to provide little support, the programs are "at risk of exploitation." Based on our review of a sample of payment files and the findings of Agricorp's program audit group, we noted that farmers were receiving incorrect payments as follows:

Inaccurate Payments Result from Farmers Submitting Incorrect Information

From 2013 to 2017, Agricorp's program audit group found that in 31% of the over 560 audits they conducted, farmers were either overpaid or underpaid by a total of $5.6 million. **Figure 14** summarizes the results of the audits from 2013 to 2017.

Agricorp's program audit group ensures that eligible farmers receive the correct support payments by requesting supporting documentation from farmers or conducting farm visits to validate information reported by farmers. The group also looks at Agricorp's review of information submitted by farmers to ensure that payments are correctly calculated.

In 72% of files with overpayments or underpayments in 2017, the error occurred because farmers had incorrectly reported income and expense information on their program applications. Some examples include:

- The 2016 audit of AgriStability payments to three related farm corporations found that the three were overpaid by $362,000 in 2013. The farm corporations had incorrectly included ineligible amounts in their income and expenses.
- The 2016 audit of a farm's AgriStability payment found that the farmer had incorrectly reported opening and ending inventory balances, and included ineligible amounts in income and expenses. The audit resulted in 30 adjustments to various income and expense items in the farmer's 2013 and 2014 applications, which amounted to over $1.1 million in underpayment in both years.

Figure 14: Results of Agricorp's Program Audits, 2012–2017

Prepared by the Office of the Auditor General of Ontario

	2013	2014[1]	2015	2016	2017	Total
Total # of files audited	138	113	91	104	116	**562**
Total value of payments audited ($ million)[2]	16.6	1.5	12.2	9.0	15.5	**54.8**
Files with payment changes[3]						
# of files with underpayments	11	1	10	17	17	**56**
# of files with overpayments	19	3	25	30	41	**118**
Total # of files with payment changes	**30**	**4**	**35**	**47**	**58**	**174**
As a % of files audited	22	4	38	45	50	**31**
Value of payment changes						
Value of underpayments ($ million)	0.034	0.002	0.218	2.073	0.041	**2.368**
Value of overpayments ($ million)	0.111	0.047	0.845	0.899	1.286	**3.188**
Absolute value of payment changes ($ million)	**0.145**	**0.049**	**1.063**	**2.972**	**1.327**	**5.556**
As a % of payments audited	1	3	9	33	9	**10**

1. The vast majority of audits conducted in 2014 were "no-payment" files selected at random. Following the Ontario Internal Audit Division's recommendations, audits in subsequent years included higher-risk files.
2. Pre-audit value.
3. Payment changes include any increase or decrease in the calculated payment, which were identified as a result of the audit. These include changes resulting from pre-payment audits, which were done before payments were issued to farmers.

Overpayments Result from Farmers Submitting False Information

In 2015/16, Agricorp's program audit group identified five instances where farmers provided false or misleading information to Agricorp in both their AgriStability and Ontario Risk Management Program applications. For example, Agricorp found that the operators of six farms involved in complex financing arrangements with each other had provided fictitious documents, such as invoices for feed and cattle sales, to Agricorp. They had also applied for multiple payments for the same cattle from 2011 to 2015. During that period, the farmers received a total of over $200,000 in benefit payments under AgriStability and the Ontario Risk Management Program.

Prior to 2016/17, Agricorp's program audit group did not track instances where farmers were found to have provided false or misleading information in their applications. However, in 2015, the audit group found that a farmer under-reported his soybean and corn yield in his 2011 and 2013 Production Insurance claims by including a portion of his yield in his wife's name. The 2011 soybean claim amounted to $76,000 while the 2013 corn claim was for $45,000. Agricorp clawed back the entire 2011 claim, which had already been paid out, and denied the 2013 claim, which was being processed during the audit.

Understanding that involvement in custom-feeding arrangements will impact a farmer's eligibility and the amount of payment under the Ontario Risk Management Program (as described in **Section 4.1.3**), we wanted to determine whether farmers reported such arrangements in their applications. We noted that only custom-feeders are required to report their involvement in these arrangements. We analysed income-tax information from the Canada Revenue Agency from 2012 to 2016, and found that 42% of farmers who reported custom-feeding *income* during that period did not indicate in their Program applications that they were custom-feeding livestock that is owned by another farmer. Agricorp advised us that these farmers could be custom-feeding different types of livestock than those they enrolled in the Program.

However, Agricorp has not confirmed whether this is the case because staff are not required to review farmers' income-tax information when reviewing payment applications.

Relying only on one party of the agreement (i.e., the custom-feeders) to report their involvement does not provide Agricorp with the necessary information to determine which party is eligible for Program payment. As described in **Section 4.1.3**, determining eligibility for Program payment depends on the terms of the custom-feeding arrangement. In fact, five of the 15 farmers described in that section who received incorrect payments were livestock owners who were not required to report their involvement in custom-feeding arrangements. The five farmers received a total of $1.8 million in Program payments for which they were ineligible. We also noted that Agricorp staff are not required to check for custom-feeding expenses despite having access to such information in farmers' income-tax returns. Our analysis of income-tax information from the Canada Revenue Agency from 2012 to 2016 found that, on average, 112 livestock owners reported custom-feeding expenses in their income-tax returns per year. Agricorp had not analysed this information to determine if both parties of the agreement had properly claimed cattle for which they were eligible to receive Program payments.

4.4.2 Farm Visits Done Only in Few Cases

Farm visits are not required to verify information reported by farmers for payments under AgriStability or the Ontario Risk Management Program.

For Production Insurance, visits are conducted depending on the circumstances of the claim; if, for example, a claim seems unusually large for the area or for the year, or if a farmer has a history of frequent claims. However, Agricorp does not systematically track either the number or the results of farm visits conducted in any given year.

At our request, Agricorp compiled a list of all activities completed by its field staff in 2015, based on its time-tracking system. The list indicates that Agricorp field staff conducted almost 11,000 farm visits. However, we found that field staff recorded their visits differently. For example, some staff recorded separate visits for each crop inspected.

As a result of these factors, we could not reasonably determine what proportion of farmer claims was verified through farm visits. In our survey of farmers, we asked respondents if Agricorp had visited their farm in the last five years. About one-quarter indicated that Agricorp had visited their farm and that the primary purpose of the visit was crop or yield inspection in relation to a Production Insurance claim.

We also reviewed a sample of inspection files to understand how Agricorp's field staff verify farmer-reported information. We noted that inspection reports did not contain sufficient information about how information was verified. For example, there are no clear criteria to assess whether the farmer used good farm-management practices. Field staff are responsible for determining whether any part of the claim is attributable to poor farm-management practices, which would result in part or all of the claim being denied. Agricorp advised us that assessing whether or not farmers used good farm-management practices is subjective, because staff must consider crop-growing conditions, which are variable, as well as the method of growing (i.e., conventional or organic).

The importance of conducting farm visits and documenting how farmer-reported information was verified during such visits are highlighted in the following examples:

- In 2015, a farmer applied for AgriStability and reported a $3-million inventory loss. Agricorp staff did not conduct a farm visit at the time of the loss because visits are not required under AgriStability and the farmer did not participate in Production Insurance. A subsequent Agricorp audit noted that a farm visit would have "allowed [Agricorp staff] to assess disaster circumstances on-time and/or review whether best farming practices have been followed." As such, Agricorp was left with two options: accept the farmer's estimate of inventory loss in absence of documentation, or estimate the loss using prior-year inventory levels. Agricorp chose to accept the farmer's estimate and paid the farmer a total of $2.43 million.

- Between 2011 and 2016, three of the six cases related to Production Insurance claims where the review or appeal resulted in payment changes were due to poorly-documented inspection reports. For example, the Tribunal awarded an additional $147,000 (or 46% more than the original payment) to one farmer because the Tribunal "heard inconsistent testimony from different [Agricorp staff who conducted the farm visits] about the type and amount of disease present" and that Agricorp could not provide evidence to indicate that the staff inspected identical sites within the vineyards.

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; and
- 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.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation. Agricorp will enhance the internal risk-based claims process that includes targeted, random, and large-value audits to further identify circumstances where additional source documentation should be obtained or a farm visit is required to validate information provided by farmers. This will be added to claims processing during the 2018 program year.

A new system to deliver Production Insurance will include capabilities to better report on farm visits, including visits conducted for claims verification, and the outcomes of the visits. In the long-term, Agricorp expects to migrate AgriStability and the Ontario Risk Management Program to the new system.

4.5 Agricorp's Aging IT Systems Costly and Susceptible to Errors

Agricorp uses over 30 IT systems to administer Production Insurance, AgriStability and the Ontario Risk Management Program. Thirty secondary systems either feed information to, or extract information from, the four main systems that Agricorp uses to administer the programs.

Of the four main systems, the one used to administer Production Insurance is 25 years old while another, which processes AgriStability, is over 10 years old.

4.5.1 System Errors Lead to Incorrect Information, Payments to Farmers

In the last five years, there have been 31 system-related errors that resulted in farmers either receiving incorrect information about their program participation, or incorrect payments totalling over $2.7 million. In over 85% of cases, Agricorp only found out and corrected the errors after being notified by the farmers.

The systems require many manual workarounds that cause delays and errors. For example, Agricorp noted in 2007 that the Zephyr system, which is used to deliver the AgriStability program, was originally developed to deliver a small disaster-relief program without the "workflow, audit trails, financial functionality, or the capability to handle the volume of files that the system must manage."

Despite significant modifications to Zephyr over the years, it still cannot perform a number of calculations. For example, interim AgriStability payments are calculated outside of Zephyr. Almost $17 million in AgriStability payments for 2015, representing 23% of the total value of all program payments (including interim payments), were calculated manually using Excel spreadsheets, and then imported back into Zephyr for processing. In our review of interim payments, we found errors and delays in payments due to human error. For example:

- In 2012, an Agricorp staff incorrectly entered acreage data from the application form into the Excel spreadsheet, which resulted in the farmer initially receiving $6,000 less in an interim payment. The error was identified by the farmer's accountant after receiving the payment.
- In 2012, an interim payment was held up by two months because Agricorp staff overlooked the calculation of the application fee, which also had to be determined manually. Although the interim payment had already been calculated, Agricorp could not issue the payment until the application fee was deducted from the amount. Agricorp only found out about the oversight when the farmer's accountant inquired about the interim payment.

Farmers' annual participation fees may also be calculated manually on Excel spreadsheets if Agricorp does not have complete information about a farmer in the case of a new participant or a past participant with incomplete information. In the last five years, fees for 20% (or 16,000) of AgriStability participants have been calculated manually, totalling $6.7 million (or 16% of total fees billed). Prior to our inquiries, Agricorp did not know the value of fees that were calculated manually.

Manual workarounds result in increased costs and risk of human error. According to Agricorp, it takes about eight to 15 staff approximately five to 10 days each year to manually calculate AgriStability fees. In addition, as a result of our inquiries, Agricorp found an error where staff entered $70,000 instead of $700,000 as income for one farmer. Consequently, the farmer was only billed $276, or 12% of the correct fee of $2,260.

In addition, the systems are not inter-connected and lack sufficient data edits to ensure that information is accurate. These weaknesses have resulted in, for example, four system-related errors in 2011 that led to more than 400 farmers either receiving incorrect information about their program participation or incorrect payments. In one instance, a coding error resulted in 94 AgriStability and Ontario Risk Management Program participants being overpaid.

4.5.2 Maintaining IT Systems Requires Significant Costs

Costs to maintain its various IT systems currently represent nearly one-third of Agricorp's annual expenditures, compared to 20% in 2007. In addition, one-quarter of Agricorp's staff currently work in the IT division, compared to 11% in 2007.

Agricorp advised us that the increase in IT costs can be attributed to rising costs to maintain its aging systems as well as additional costs related to:

- full-time-equivalent staff to perform system testing and develop software architecture;
- software, hardware, licensing and printing costs; and
- the addition of the Ontario Risk Management Program in 2011.

The various systems were built for each particular program, and some of the secondary systems perform specific functions, such as collecting rainfall data and calculating yields. Because the individual systems were built with specific functionality required to deliver each program, this lack of flexibility required Agricorp to develop a new system to deliver the Ontario Risk Management Program for livestock farmers. Agricorp spent $6 million on this new system, including the cost of a dozen staff or consultants to supplement existing staff.

Cost and Time to Complete IT Renewal Unknown

Agricorp identified the need to replace its IT systems in 2005, and again in 2007. The five-phase IT renewal plan estimated that the project would be completed within five years, but did not include an estimate of total project cost.

In 2010, Agricorp revised its plan and requested funding for only three of the five phases. Phase One of the revised plan involved development of common farmer and farm-data components (for example, a unique Agricorp identifier for each farmer), to be used across all systems. This phase took two years to complete. However, the unique identifier can currently be used only for the three programs administered by Agricorp, and not for any others.

Agricorp recently received approval for Phase Two, to replace its 25-year-old Production Insurance system, which will take an estimated three years and $10.4 million to complete.

Agricorp has not prepared an implementation plan to replace Zephyr, which, Agricorp stated, was "inadequate, unstable, inefficient, and outdated" even in 2007. At the time of our audit, Agricorp had not determined the total cost and time to complete its IT renewal project.

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.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation and has initiated work to modernize capabilities to deliver Production Insurance. The Ministry of Agriculture, Food and Rural Affairs and Agriculture and Agri-Food Canada have recently approved funding for this work and have established governance to monitor the implementation which is expected to be complete in 2021.

Agricorp will present an inventory of applications and risks associated with each aging system to the Agricorp Board's Finance and Audit Committee beginning in 2018. This will then inform the development of application renewal timelines and funding needs.

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

Agricorp is governed by a board of directors accountable to the Minister of Agriculture, Food and Rural Affairs. There was no documented evidence that Agricorp's board received information on instances of farmers found to provide false or misleading information to Agricorp. For example, in 2015, Agricorp senior management engaged the Ontario Internal Audit Division's Forensic Investigation Team to review and provide a "second opinion" on the results of several audits conducted by Agricorp's program audit group in 2014. The results of Agricorp's audit are described in **Figure 12** (Joint-Venture Arrangements).

The Forensic Team agreed with the conclusions of Agricorp's audit group, and also identified possible issues such as the inappropriate reporting of tax, creating fictitious documents and conspiring with investors. Despite such significant findings, there was no evidence of Agricorp senior management informing the board of the outcome of the review.

We also raised concerns with Agricorp's senior management about the actions it took in response to the findings. While five farmers involved in the joint-venture arrangements were not allowed to participate in AgriStability and the Ontario Risk Management Program (Program) for two years as a result of the audit, the main participant in the various arrangements (Farmer A in **Figure 12**) was allowed to continue participating in the programs. According to Agricorp, Farmer A was allowed to participate in the programs because he had not provided false or misleading information directly to Agricorp; he had merely provided the other farmers with fictitious documents, which those farmers then provided to Agricorp. However, the Forensic Team's report found that Farmer A did provide false information directly to Agricorp. Specifically, Farmer A indicated in his own application that he was not in any joint-venture agreement when, in fact, he actually was in one. As of 2016, Farmer A had still not indicated in this Program application that he is in any joint-venture arrangements.

In addition, prior to our audit, the board was unaware of the activities and findings of Agricorp's program audit group. As discussed in **Section 4.4.1** above, the group audits a sample of files and validates information reported by farmers by requesting supporting documentation or conducting on-site visits. This is done to determine whether farmers are eligible for payments received, and whether payment amounts are correct.

The group produces an annual report summarizing its findings and, based on those findings, makes recommendations to improve Agricorp's processes. The audits have identified instances in which farmers received inaccurate payments because they submitted incorrect or false information to Agricorp. We found that the group only reports to Agricorp's Chief Financial Officer and an internal committee, and not to the board or its Finance and Audit Committee. Agricorp did not take action on recommendations from the audits until 2016. Some of the recommendations include further clarifying the livestock ownership rules for the Ontario Risk Management Program and AgriStability, and improving the AgriStability review process so that payment applications by owners of related farming operations are evaluated consistently.

Governance best practices dictate that an organization's board of directors must be aware of significant risks that may impact the organization's operations. These best practices also dictate that, for an organization's program audit function to remain independent, it must have a reporting relationship with the board or one of its committees.

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.

AGRICORP RESPONSE

Agricorp management agrees with the Auditor General's recommendation to further enhance documentation provided to the Board of Directors. Beginning in 2018, trends and risks identified by the Agricorp program audit group will be added to the current practices of program compliance and legal reviews at the Board. Methods to maintain confidentiality of customer information, consistent with privacy legislation, will be considered for the additional documentation provided to the Board.

Within the Board's continuous improvement activities, the annual governance review will seek a more transparent and systematic approach to document and review sensitive files instead of the current verbal or in-camera approach.

Although Agricorp reports to both the Board and the Ministry on a regular basis, it will determine how best to communicate more time-sensitive customer issues or trends that are identified through program audit and other channels.

4.7 Impact of Programs Not Fully Known or Measured

The goal of the 2013-18 *Growing Forward 2 Framework* (Framework) is to "achieve a profitable, sustainable, competitive and innovative industry." From 2013 to 2017, the Ministry has spent $1.06 billion on farm-support programs, and has either budgeted or committed another $275 million until 2018. While the Ministry and federal government have established measures for individual programs, they cannot demonstrate how the programs, which represent a significant investment, have contributed to the Framework's goal.

4.7.1 Little Incentive for Farmers to Be Innovative

The OECD states that facilitating innovative practices (such as research and development activities to improve productivity, develop or improve farm practices, or increase efficiencies), which the Framework tries to achieve through the Strategic Initiatives program, would help improve the agriculture sector's competitiveness and sustainability.

Under the Framework, the Ministry increased funding allocations for the Strategic Initiatives program by 50% from the previous framework. For the five-year period from 2013 to 2018, the Ministry committed to providing $182 million in funding for the Strategic Initiatives program, compared to $120.8 million in the previous five years. Despite this, however, funding for projects to encourage innovation represents only 15% of total farm-support payments in the last five years.

We wanted to know if this level of funding for innovation is sufficient, so we reviewed the OECD's analysis of countries' spending on "agricultural knowledge and innovation." The OECD defines this type of spending as that which finances, for example, research and development activities related to agriculture, and training and advice to farmers. We found that Canada ranked 12th out of 25 jurisdictions in terms of spending as a percentage of its gross domestic product.

As a result of limited funding for Strategic Initiatives, there have been instances in which farmers were denied funding some years for projects ranked superior to others that received funding in other years, when there were fewer applications. In fact, we found that one-fifth of eligible projects that were denied funding in the last four years actually scored higher than half of the projects that actually received funding in other years.

This happens because the Ministry allocates a pre-determined amount each year for Strategic Initiatives, so the minimum score that applicants must get to receive funding fluctuates depending on the number of applications received in a given year. In the last four years, the minimum score for approval has ranged from as low as 20 out of 100 to as high as 87 out of 100.

The OECD noted that this approach does not encourage farmers to develop proactive risk-management strategies, which would help achieve Framework goals.

4.7.2 Existing Measures Not Tied to Program Goals

The Ministry and Agricorp have established a number of performance measures for the various farm-support programs. Under the Framework, the Ministry must also submit information to Agriculture Canada regarding Production Insurance, AgriStability, AgriInvest and the cost-sharing program for strategic initiatives. While there are some outcome-based measures, most measures are based on program-specific outputs, such as the number of participants, amount of payments, and administrative costs, which are not tied to the goals of the Framework. For example, Ministry internal documents indicate that performance measures for AgriInvest are "weak and do not show value for money. There are significant funds built up and no financial health triggers [for withdrawal]."

In addition, only some measures for business-risk-management programs are publicly-reported in Agricorp's annual report (see **Appendix 7**). As a result, the public and other decision-makers cannot determine whether the various farm-support programs are helping farmers manage their risks.

We raised similar observations in our *2008 Special Report* on Agricorp's delivery of farm-support programs, and recommended that the Ministry measure the extent to which programs help farmers remain financially secure. At the time of our audit, neither the Ministry nor Agricorp has put such measures in place for business-risk-management programs.

In 2013, the Ministry began developing outcome-based performance measures and collecting data for the strategic initiatives program by asking farmers to complete a survey form at the completion of their project. Depending on the nature of the project, farmers may be asked, for example, whether the funds helped them access a new market for their commodity or helped reduce their farm's environmental impact. Select results of the survey are reported on the Ministry's website. These include, for example, the percentage of farmers who stated that the project improved their productivity and/or their ability to adapt to climate change, or reduced the risk they posed to the environment. The Ministry informed us that further work is needed to establish more concrete program goals, set targets, and more accurately analyze farmers' responses.

Programs Evaluated Independently of Each Other

According to the Framework, the programs are intended to work together to provide a comprehensive system of support, but the performance measures are specific to each program. While the Ministry does measure the number of AgriInvest participants who also participate in AgriStability, neither the Ministry nor Agricorp have established indicators to measure how well (or even if) the programs complement each other to achieve the Ministry's overall goal for farm-support programs.

The Ministry and Agricorp have also conducted a number of program reviews in the last five years, but each review focused on individual programs rather than the entire suite of programs.

Even if the Ministry or Agricorp were to develop indicators to measure the effectiveness of the entire suite of programs, it would be challenging given how the programs are delivered. Specifically, the Ministry would have to collect information from the four organizations that deliver farm-support programs—Agricorp; Agriculture and Agri-Food Canada; the Ontario Soil and Crop Improvement Association; and the Ministry itself—and then would need a way to identify farms across the various programs. Although Agricorp has recently implemented a new system that assigns a unique farm identifier for the three programs it delivers, the other three organizations do not use this identifier and hence cannot collect the necessary information.

Ministry's Analysis of Impact Is Incomplete and Contradicts Available Evidence

In 2016, the Ministry's review of the Ontario Risk Management Program (Program) could not determine whether it had achieved the desired outcomes or provided a positive return on investment for taxpayer dollars. The review also found that payments did not stabilize farm income. In addition, the Ministry found that "there is no credible evidence to substantiate the claim that the Program contributes to increased agricultural sector investment."

In response to the 2016 review, the Ministry, as part of its 2016/17 business-planning process, analyzed the extent to which participants in AgriStability and the Program feel confident enough to invest in their farms. The analysis indicated that farmers who regularly participate in AgriStability and the Program are twice as confident about investing in their farms as those who do not.

However, the Ministry's findings are incomplete because the analysis:

- did not evaluate the impact of other business-risk-management programs such as Production Insurance and AgriInvest; and
- used information on farmers who only participate in AgriInvest and one-time programs to represent farmers who do not

participate in any farm-support programs. This is because the Ministry has no information on farmers who do not participate in farm-support programs.

We also found conflicting evidence, indicating that further work is needed. For example, Agricorp's 2017 survey of farmers shows that 58% and 65% of respondents indicated that AgriStability and the Program, respectively, helped them to have the confidence to invest in business improvements. However, these results are inconsistent with the following:

- A February 2016 report by the Canadian Federation of Agriculture stated that farmers' confidence in the current suite of business-risk-management programs has eroded, and called for significant amendments to restore confidence.
- A 2014 survey by the Ontario Federation of Agriculture indicated that 69% of respondents did not feel that current business-risk-management programs met their needs. That represents an improvement over the 88% reported in the 2010 survey, but still remains high.
- Our survey of farmers indicated that only 24% believed that AgriStability was effective in helping them manage their risks, and only 35% believed that the Program was effective. In fact, of the four business-risk-management programs, AgriStability and the Program had the lowest "satisfaction ratings."

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

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation.

As part of the Federal-Provincial-Territorial (FPT) business-risk-management (BRM) review, the Ministry will work with its FPT partners to gather information from other jurisdictions across Canada and internationally to identify best practices and options for advancing the current measurement of overall program performance.

The Ministry will work with Agriculture and Agri-Food Canada, Agricorp, and the Ontario Soil and Crop Improvement Association to review and implement opportunities to better measure and analyze the collective impact across the suite of programs in Ontario.

Appendix 1: Selected Key Agricultural Stakeholders and Organizations

Prepared by the Office of the Auditor General of Ontario
(Note: this list is not exhaustive)

Agriculture and Agri-Food Canada

The federal Agriculture and Agri-Food Canada ministry works with farmers and food producers to support the growth and development of the agriculture and agri-food sector. It achieves this through research and by developing policies and programs that aim to help farmers and food processors succeed in Canada and abroad.

Agriculture, Food and Rural Affairs Appeal Tribunal (Tribunal)

The Tribunal adjudicates appeals of decisions made by the Ministry of Agriculture, Food and Rural Affairs. It seeks to provide fair and impartial hearings and decisions for individuals appealing a ministry direction, policy, order or decision, or for those who require resolution of a dispute related to legislation that falls within the Tribunal's mandate.

Business Risk Management Review Committee (Committee)

The Committee is composed of representatives from industry appointed by the Minister of Agriculture, Food and Rural Affairs. It hears appeals of Agricorp decisions and issues non-binding recommendations that Agricorp can accept fully or in part, or not at all.

Commodity Groups

Commodity groups conduct research and advocacy on behalf of their members on issues of importance to their industry. They include:

- Beef Farmers of Ontario;
- Dairy Farmers of Ontario;
- Grain Farmers of Ontario;
- Ontario Fruit and Vegetable Growers' Association;
- Ontario Pork;
- Ontario Sheep Marketing Agency; and
- Veal Farmers of Ontario.

Ontario Federation of Agriculture

The Ontario Federation of Agriculture is the largest voluntary farm organization in Canada, representing over 36,000 farm businesses across Ontario. It has 31 member-organizations, including Beef Farmers of Ontario, Dairy Farmers of Ontario, and Ontario Fruit and Vegetable Growers' Association, that account for many of the commodities produced in this province.

Ontario Soil and Crop Improvement Association (Association)

The Association was formed in 1939 as a grassroots organization to disseminate to farmers the results of agricultural research by the University of Guelph. The Association also administers programs under contracts with the Ontario Ministry of Agriculture, Food and Rural Affairs, the Agricultural Adaptation Council, the Ontario Ministry of Natural Resources and Forestry, Environment Canada, and other agencies.

Currently, the Association is responsible for delivering the 2013-18 *Growing Forward 2* strategic initiative programs for farmers (see **Section 2.4**), including determining eligibility for funding.

Organisation for Economic Co-operation and Development (OECD)

The OECD promotes policies to improve the economic and social well-being of the world's population by providing a forum in which governments can pursue solutions to common problems. Through research and analyses, the OECD also works with governments to understand economic, social, and environmental change in order to recommend policies designed to improve quality of life around the world.

Appendix 2: Reviews and Appeals, 2011–2016

Prepared by the Office of the Auditor General of Ontario

Program		# of Files Received	# of Files With Changes Made	$ Value of Changes Made
Production Insurance	Internal Review Committee	22	4	80,000
	Agriculture, Food and Rural Affairs Appeal Tribunal	4	2	165,000
AgriStability	Amendment request	794	764	6,835,000
	Business Risk Management Review Committee	44	11	1,012,000
Ontario Risk Management Program	Amendment request	unknown*	unknown*	unknown*
	Business Risk Management Review Committee	5	1	37,000

* Not tracked by Agricorp.

Appendix 3: One-Time Farm Support Programs in Ontario, 2007–2017

Prepared by the Office of the Auditor General of Ontario

Year	Program Name	Objective	Total Payments ($)[1]	# of Recipients
Programs Funded Jointly by the Federal and Ontario Governments				
2013	Canada-Ontario Apple and Tender Fruit Weather Risk Mitigation Strategy Initiative	To support apple and tender-fruit[2] growers to develop a weather-risk-mitigation strategy.	1.7 million	469
2012	Canada-Ontario Forage and Livestock Transportation Assistance Initiative	To help Ontario livestock farmers recover from the effects of the 2012 drought.	271,000	63
2010/11	Ontario-Tornado Assistance Initiative	To help fruit-tree orchards in the Georgian Bay area recover from a 2009 tornado.	572,000	13
2008/09	Ontario Duponchelia Assistance Program	To help farmers in the Niagara region affected by duponchelia, a moth-like pest.	1.6 million	4
Programs Funded Solely by the Ontario Government				
2014/15 and 2015/16	Beekeepers Financial Assistance Program[3]	To assist eligible beekeepers who experienced an increase in the mortality rate of their beehives.	5.4 million	311
2007/08	Ontario Cattle, Hog and Horticulture Payment	To mitigate the effects on farmers of the strong Canadian dollar and lower market prices.	139 million	13,529
2007	Ontario Cost Recognition Top-Up	To match federal contributions under a program to mitigate rising production costs over the previous few years.	50.5 million	37,108
2007	Grape Juice Grape Transition Program	To help farmers transition out of grape-growing following the closure of grape-juice factories in Ontario.	2.8 million	135
2007	Beekeepers Assistance	To provide direct compensation to beekeepers who suffered higher-than-normal losses during the intensely cold winter of 2007.	2.6 million	558
Total			**204.4 million**	

1. Represents total payments to farmers from both federal and provincial governments.
2. Tender fruit includes apricots, nectarines, peaches, pears, plums and cherries.
3. Replaced by a permanent Bee Mortality Production Insurance plan in 2016.

Appendix 4: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	The Ministry/Agricorp have complete, accurate, relevant and timely information on farmers, and the agriculture sector in Ontario as a whole, to appropriately inform the design and delivery of farm-support programs. Current best practices are also used in this regard.
2.	Farm-support programs have eligibility criteria that are clearly communicated to stakeholders. The criteria are consistently and objectively assessed by qualified staff in a timely manner in the delivery of programs.
3.	Procedures are in place to ensure eligible farmers receive accurate and timely payments, and pay premiums and fees, in accordance with program requirements.
4.	Performance measures and targets are established for farm-support programs, and monitored and compared against actual results, to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.
5.	Roles, responsibilities, and accountability requirements for the delivery of farm-support programs are clearly defined to ensure compliance with legislation, policies, and program requirements.
6.	Information systems used to deliver farm support programs: a) facilitate accurate and timely calculation of amounts due to and from farmers; and b) provide complete, accurate and timely information to facilitate performance measurement.

Appendix 5: Results of Ontario Farm Support Programs Survey, July 2017

Prepared by the Office of the Auditor General of Ontario

In July 2017, we conducted a survey of Ontario farmers with the support of the Ontario Federation of Agriculture. The survey was distributed to close to 20,000 farmers in Ontario. We received 930 responses. However, response rates for individual questions vary. According to the Ontario Federation of Agriculture, the typical response rate for their surveys is between 800 and 900.

Demographics of Survey Respondents

We received responses from farmers in 49 different counties across Ontario.

	# Who Indicated This as a Commodity They Produce	As a % of Respondents[1]
Grains and oilseeds	442	48
Cattle	184	20
Horticulture	120	13
Poultry	52	6
Dairy	47	5
Sheep	33	4
Hog	25	3
Veal	3	0
Other[2]	167	18
Total	**1,073**	**930 Respondents**

1. Percentages do not add up to 100 because farmers were able to list multiple commodities.
2. Includes hay, grapes, bees, goats, maple syrup, etc.

Farm Gross Revenue	# of Respondents	As a % of Respondents
Gross revenues of less than $10,000	49	7
Gross revenues of $10,000–$99,999	267	37
Gross revenues of $100,000–$249,999	143	20
Gross revenues of $250,000–$499,999	87	12
Gross revenues of $500,000 or more	169	24
Total # of Respondents	**715**	**100**

Participation in programs during the five years from 2011–2016

	1 or 2 Years (%)	3 Years (%)	4 or 5 Years (%)	Did Not Participate (%)	Reasons Provided for Little or No Participation	# of Responses
Production Insurance	1	3	52	43	• Program does not meet farm's needs • Premiums/fees are too high compared to potential benefits • Other (e.g., no coverage for livestock, decided to self-insure)	**637**
AgriStability	2	7	50	41	• Program does not meet farm's needs • Premiums/fees are too high compared to potential benefits • Other (e.g., too complicated, accountant fees too high, not helpful for new farmer)	**636**
AgriInvest	1	4	63	31	• Other (e.g., farm income too low) • Program does not meet farm's needs • Not aware of the program	**635**
Ontario Risk Management Program	4	2	38	56	• Not aware of the program • Program does not meet farm's needs • Heard of the program, but do not know how it works	**632**
Strategic Initiatives	8	8	9	75	• Program does not meet farm's needs • Not aware of the program • Heard of the program, but do not know how it works	**632**

Are the programs effective in helping you manage risks in your farming operation?

	Yes (%)	No (%)	Uncertain (%)	Total Respondents
Production Insurance	53	26	21	**450**
AgriStability	24	44	32	**450**
AgriInvest	54	19	26	**450**
Ontario Risk Management Program	35	28	37	**449**
Strategic Initiatives	22	29	48	**449**

Selected Comments:

On why AgriInvest does not help manage risks: *"AgriInvest is a reward support based on a small fraction of margin. In other words, the better the year's margin is, the more dollars are matched by the government and accumulated in your account. A rainy day fund so to speak."*
On why AgriStability does not help manage risks: *"Even when we lost 80% of our crop, we did not qualify for a payment."*
On why Strategic Initiatives does not help manage risks: *"Even with a solid application, we have been turned down because the program ran out of money."*
"Some projects approved and some growers were rejected for the same projects."

How have you used the support you received from the following programs?

	#1 Use of Funds	#2 Use of Funds	#3 Use of Funds	Other Uses	Total Respondents
Production Insurance	Stabilize my farm income (47%)	Reinvested in my farm operation (31%)	Reduce debt or held the funds to improve liquidity (15%)	• Secured credit for my farm operation • Avoid bankruptcy • Pay bills	218
AgriStability	Stabilize my farm income (39%)	Reinvested in my farm operation (35%)	Reduce debt or held the funds to improve liquidity (19%)		155
AgriInvest	Reinvested in my farm operation (47%)	Reduce debt or held the funds to improve liquidity (24%)	Stabilize my farm income (20%)		293
Ontario Risk Management Program	Stabilize my farm income (42%)	Reinvested in my farm operation (41%)	Reduce debt or held the funds to improve liquidity (14%)		187

Top Focus Areas for Government Support for Strategic Initiatives (in order of importance to farmers)

1. Improve energy efficiency;
2. Improve labour productivity, including automation;
3. Implement best management practices to protect soil, water and wildlife;
4. Mitigate weather-related risks;
5. Implement best-nutrient management practices;
6. Implement food-safety programs, including equipment and facility upgrade;
7. Expand existing markets or access new/emerging markets;
8. Reduce biosecurity risks; and
9. Other (e.g., better access to credit, on-farm technology, improved access to Internet).

Are the programs sufficient to help your farm remain viable through a natural disaster or market crisis?

	Yes (%)	No (%)	Uncertain (%)
Production Insurance	36	33	30
AgriStability	18	49	33
AgriInvest	29	40	30
Ontario Risk Management Program	29	40	30

Selected Comments:

On AgriInvest: *"Our AgriInvest balance is around $83,000.00 and that does not even come close to paying any expenses should we be wiped out one year. We would need approx. $150,000.00 or more – so we are hoping that nothing terrible happens before we have funds in place. It happened to us in 1992 and we took a long time to come back despite having crop insurance, etc."*

On AgriStability: *"AgriStability margin calculations simply can never work for diversified multiple crop G&O, especially if high maintenance costs for using older equipment are not allowed in the margin calculation. 70% coverage of a neutered margin calculation, to be blunt, becomes more like a 50% disaster margin. Not much 'price' insurance there."*

On AgriStability: *"Too much time passes to handle the crises (drought, flooding, etc.): file the taxes, wait for the taxes to come back, do the application, and wait for the review."*

Has the Ministry, Agricorp, or the Ontario Soil and Crop Improvement Association (OSCIA) visited your farm in the last five years?

	Agricorp (%)	Ministry (%)	OSCIA (%)	Yes, But Not Sure Who (%)	No (%)	Can't Recall (%)	Total Respondents
Yes	26	9	5	1	53	5	**591**

Site visits may be unrelated to business risk management programs. The reasons provided for the visits include the following:

Reasons for Visits	% of Respondents
Crop or yield inspection in relation to a Production Insurance claim	**66**
Outreach to provide support about available programs	**13**
To inspect farm records such as invoices and receipts as part of an Agricorp audit of benefit payments	**9**
Other (e.g., licensing for other programs, industry tour for Ministry staff)	**8**
Can't recall why	**4**
Total Respondents	**216**

Producer Suggestions on Areas of Improvement for Farm Support Programs

Program	Top Suggestions
Production Insurance	• Adjust average farm yields for areas with severe weather • Use updated market values • Use a calculated average similar to AgriStability
AgriStability	• Improve communication to farmers and simplify calculation • Improve timeliness and make processing faster • Increase level of support • Give farmers a choice on coverage levels and increase premiums where necessary • Make payments predictable • Merge AgriStability and Production Insurance • Cancel the program
AgriInvest	• Increase government contribution rate • Allow inclusion of custom feeding income on Statement A
Ontario Risk Management Program	• Eliminate caps • Get federal government support • Combine with AgriStability or Production Insurance • Streamline with tax information
Strategic Initiatives	• Increase funding • Provide more information on programs • Eliminate environmental farm plan requirement • Increase transparency and equity of project selection

Selected Comments:

On effectiveness of AgriStability: *"Eliminate this program and put more funding towards Production Insurance, Ontario Risk Management Program, and AgriInvest."*

On timeliness of AgriStability: *"In a growing season (like 2017 so far), where many farmers have lost in the range of 30-80% of their crops due to too much rain, fast-tracking the payments to the farmers would be helpful in being able to keep paying the bills."*

On effectiveness of AgriInvest: *"Best program out there if you have the money to invest."*

On delivery of Ontario Risk Management Program: *"Provide more support to farmers on how to properly complete paper work."*

On effectiveness of Strategic Initiatives: *"Provide the program with a proper budget."*

Appendix 6: Ontario Cattle, Hog and Horticulture Payment Program, 2008

Prepared by the Office of the Auditor General of Ontario

About the Program

Work began on the Ontario Cattle, Hog and Horticulture Payment program (OCHHP) in 2007 with the intention of paying support to farmers in 2008 following large financial losses in the cattle, hog and horticultural sectors. These losses resulted from poor market conditions that included:

- a strong Canadian dollar;
- high supply costs;
- ongoing restructuring in the Ontario pork- and beef-processing sectors; and
- new processing and export requirements for cattle farmers in response to the mad-cow-disease crisis.

Program Problems

The main criticism of OCHHP was that its design and delivery had been rushed, and that the Ministry relied on an incomplete or outdated database to calculate and distribute payments. As a result, the Ministry may have missed farmers who needed financial support and/or provided payments to those who no longer needed them because they had downsized or left the sector altogether.

Eligibility Criteria

Only farmers who had at least 50% of their sales from cattle, hogs, or horticulture in 2005/06, and who received payments through an earlier federal-government program were eligible for OCHHP payments. Those participating in the predecessor program to AgriStability in 2004 were automatically enrolled. Others had until September 2007 to apply for the federal program. Those who had not applied to the earlier federal-government program before September 2007 (three months before OCHHP was to come into effect) were also ineligible.

Payment Calculation

Payments were based on each farmer's net sales from 2000 to 2004. For new farmers (those with no sales in 2005), sales data from 2005/06 was used. For all other farmers, sales data from 2000/04 was used.

What our Audit Found

- **Short timeframe to design and deliver the program:** In late November 2007, the Minister directed staff to prepare a submission to address farmers' immediate cash-flow needs. The Ministry had just over two weeks to establish eligibility criteria and determine how program payments would be calculated. The Minister also requested funds be distributed no later than the end of March 2008. OCHHP was announced in the Fall Economic Statement in mid-December 2007.

- **Eligibility criteria not consistent with program objective:** As stated in the government's news release, the funding was intended to help farmers "deal with the immediate challenges presented by current economic conditions and the long-term impacts of BSE [mad cow disease]." However, in order to deliver the funds as quickly as possible, the Ministry used information from another federal-provincial one-time program that was largely based on income data from 2000 to 2004 to determine eligibility and calculate payments. As a result of the eligibility criteria, new farmers who started in 2007 were ineligible for payments. As well, any changes or expansions to existing farm operations after 2004 were not considered in the payment calculations. In addition, people who had left farming received money under OCHHP; our analysis indicates a total of $1.4 million was paid to 20 producers who at the time were either not living, or not farming, in Ontario.
- **Ministry staff raised concerns about eligibility criteria and basis of calculation prior to program implementation:** Ministry staff raised concerns that some farmers may be missed or that the program may not meet the current needs of producers.
- **Subsequent Ministry analysis confirmed earlier concerns:** A 2013 analysis by the Ministry found 1,350 farmers who would have received payments if eligibility had been based on 2007 income instead of the eligibility criteria used for the program. The analysis estimated that if payments were based on 2007 figures, these farmers would have received an average of $18,800 each, and total payments would have been $25.5 million. The Ministry also identified two categories of farmers who received no payments, or what they might perceive to be insufficient payments (based on their circumstances in 2007): more than 7,200 farmers who expanded their operations and, of those, over 1,500 who began farming between 2005 and 2007.

Appendix 7: Publicly-Reported Performance Indicators for Farm-Support Programs

Prepared by the Office of the Auditor General of Ontario

	What it Measures	Performance Measure and Target	2015/16 Results
Production Insurance	Timeliness of payments	Process claims within 20 business days of receiving all required information	Average time to process claims in 2015/16 = 7.2 days
	Accuracy of payments	2% or less error rate[1]	Error rate = 0%
	Farmer satisfaction	Satisfaction rating of at least 3.5 (out of 5)	Satisfaction rating = 4.31 in 2016 survey
AgriStability	Timeliness of payments	Process 75% of applications within 75 days of receiving all required information	77% of applications processed within 75 days of receiving all required information
		Process 95% of applications by November 30th	95% of applications processed by November 26th
	Accuracy of payments	2% reduction in the number of amendment requests	38% reduction
	Farmer satisfaction	Satisfaction rating of at least 3.5 (out of 5)	Satisfaction rating = 3.83 in 2016 survey
Ontario Risk Management Program	Timeliness of payments	Process 95% of applications within 60 days of receiving all required information	99% of applications processed within 60 days of receiving all required information
	Accuracy of payments	2% or less error rate[2]	Error rate = 0%
	Farmer satisfaction	Satisfaction rating of at least 3.5 (out of 5)	Satisfaction rating = 4.10 in 2016 survey

1. Calculated using dollar-unit sampling reviews. At each $400,000 payment increment, a review of the last payment is performed. The number of reviews performed each year varies depending on the total dollar value of the payments. For example, an $80-million payment year would result in 200 reviews.
2. Calculated based on a review of a sample of payments. In 2016, 1,629 payments were reviewed.