



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada



Audit of the Agri-Opportunities Program

Office of Audit and Evaluation

Final Report

June 2011

Canada

The AAFC Audit Committee recommended this audit report for approval by the Deputy Minister on June 16, 2011.

To obtain more information on the Office of Audit and Evaluation, please visit:
http://www.agr.gc.ca/aud_eval

Permission to reproduce.
Select and insert appropriate permission to reproduce notice.

© Her Majesty the Queen in Right of Canada, 2011

Catalogue number: A22-547/2011E-PDF
ISBN number: 978-1-100-19155-3
AAFC number: AAFC 11527 E

Aussi offert en français sous le titre : Vérification du programme agri-débouchés

EXECUTIVE SUMMARY	1
1 INTRODUCTION	3
1.1 Background	3
1.2 Audit Objective	3
1.3 Audit Scope	3
1.4 Audit Approach	4
1.5 Conclusion	4
1.6 Statement Of Assurance	5
2 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	6
2.1 Project Eligibility.....	6
2.2 Industry Review Committee.....	7
2.3 Recipient Monitoring	8
2.4 Repayable Contribution Agreements as AAFC Receivables.....	9
APPENDIX A: AUDIT CRITERIA	11

EXECUTIVE SUMMARY

The Agri-Opportunities Program (AOP) was implemented in 2006-2007 as a five-year contribution program. The Program Terms and Conditions for the AOP expired on March 31, 2011. The AOP was designed to encourage the development of value-added opportunities for the agriculture and agri-food sectors and to enhance the economic situation of agricultural producers. In this regard, the program was to:

- Support the development of new opportunities for agriculture by assisting the sector to move into new value-added projects and new markets with prospects for long-term sustainability; and
- Support the commercialization of new products, processes or services, especially where the risks are significant enough to present barriers to private sector investment.

The Office of Audit and Evaluation (OAE) identified the need for an audit of AOP in its Three-Year Risk-Based Audit Plan for 2010-11 to 2012-13. The objective of the audit was to provide assurance on the adequacy and effectiveness of the controls in place to support the delivery of the AOP.

Lines of enquiry were developed for the audit taking into consideration work performed under a recent program evaluation, a risk assessment conducted by Internal Audit during the planning phase of the audit, and the *Audit Criteria for AAFC Grant and Contribution Programs* document established by OAE in June 2010. Audit lines of enquiry included program governance, risk management, and the effectiveness of program specific controls. Eleven audit criteria were developed in regard to these lines of enquiry.

The audit found that adequate and effective controls were generally in place to support the delivery of the AOP, however the audit noted opportunities for improvement that could be implemented for existing and/or future grant and contribution programs. The audit identified a number of key strengths in the controls and processes to support program delivery as follows:

- AOP established a strong staff complement to support the program;
- A well defined process for conducting due diligence on project proposals was in place, which included access to relevant technical advice;
- Segregation of duties was established and respected between those who assessed projects and those who approved projects;
- Key information on project proposals and funded projects was tracked in a database to support program operations; and
- A well defined process for reviewing and processing recipient claims was established.

The audit also noted opportunities for improvement within AOP's management control framework. As this program expired on March 31, 2011, the recommendations of the audit have been drafted to support similar, existing contribution programs, as well as future programs. The recommendations, directed at the Assistant Deputy Minister (ADM) Farm Financial Programs Branch (FFPB) are as follows:

- Should reinforce with program managers the need to ensure that project assessments are clearly documented as to how all mandatory criteria have been met.
- Should provide direction to program managers to ensure that the advice of advisory committees in support of funding decisions is fully documented, including the supporting rationale, and reviewed by the committees.
- Should provide program managers with general guidance and direction for establishing recipient monitoring procedures and guidelines, including procedures to help ensure compliance with recipient reporting requirements.

1 INTRODUCTION

1.1 Background

1.1.1 The Agri-Opportunities Program (AOP) was implemented in 2006-2007 as a five-year contribution program. The Program Terms and Conditions for the AOP expired on March 31, 2011. The AOP was designed to encourage the development of value-added opportunities for the agriculture and agri-food sectors and to enhance the economic situation of agricultural producers. In this regard, the program was to:

- Support the development of new opportunities for agriculture by assisting the sector move into new value-added projects and new markets with prospects for long-term sustainability; and
- Support the commercialization of new products, processes or services, especially where the risks are significant enough to present barriers to private sector investment.

1.1.2 The program was managed by the Biofuels and Opportunities Division (BOD) within the Agricultural Transformation Programs Directorate (ATPD), Farm Financial Programs Branch (FFPB). Staff responsible for AOP within BOD ("AOP staff") assessed project proposals, with assistance from technical or other experts in other parts of the department; managed the contribution agreements with funding recipients; and monitored and reported on project performance. In addition, an Industry Review Committee, comprised of individuals from the private sector with a variety of relevant expertise, reviewed all full project proposals and provided advice in support of project acceptance or rejection.

1.1.3 Total contribution funding for the program was \$119 million over five years (2006-2007 to 2010-2011). As at February 25, 2011, twenty-seven projects had been approved under the program with a total contribution value of \$50.3 Million. Disbursements to recipients, including payments in processing, totaled \$30.5M. Further disbursements were expected under the program as several projects were on-going and claims for reimbursement were expected to be received covering the period to March 31, 2011.

1.2 Audit Objective

1.2.1 The Office of Audit and Evaluation (OAE) identified the need for an audit of AOP in its Three-Year Risk-Based Audit Plan for 2010-11 to 2012-13. The objective of the audit was to provide assurance on the adequacy and effectiveness of the controls in place to support the delivery of the AOP.

1.3 Audit Scope

1.3.1 OAE's Evaluation Services Division completed an evaluation of the AOP in October 2010 that examined both the relevance and performance of the program. The lines of enquiry were developed for the audit, taking into consideration the work already performed under the evaluation, as well as a risk assessment conducted by the Internal Audit

Division during the audit planning phase. Consideration was also given to the *Audit Criteria for AAFC Grant and Contribution Programs* document established by OAE in June 2010. The lines of enquiry for this audit were:

- Program Governance
- Risk Management
- Program Specific Controls

1.3.2 Eleven audit criteria were developed in regard to these lines of enquiry and are provided in Annex A.

1.4 Audit Approach

1.4.1 The audit approach and methodology were risk-based and consistent with the International Standards for the Professional Practice of Internal Auditing and the Internal Auditing Standards for the Government of Canada as required under Treasury Board's *Policy on Internal Audit*. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that the audit objective is achieved. The audit was conducted in accordance with an audit program that defined audit tasks to assess each audit criterion.

1.4.2 The audit included various tests, as considered necessary, to provide assurance. These tests included interviews, observations, walkthroughs, and a review of supporting documentation. In addition, a sample of project files was reviewed in order to assess the effectiveness of program specific controls in regard to the assessment of project proposals, the establishment of funding agreements, the processing of recipient payments and the monitoring of recipient activities. This audit report is based on fieldwork conducted between February and March 2011.

1.5 Conclusion

1.5.1 It is the opinion of OAE that adequate and effective controls were generally in place to support the delivery of the AOP, however the audit noted opportunities for improvement that could be implemented for existing and/or future grant and contribution programs. These opportunities for improvement are presented in Section 2.0 of the report.

1.5.2 The audit identified a number of key strengths in the controls and processes to support program delivery as follows:

- AOP established a strong staff complement to support the program;
- A well defined process for conducting due diligence on project proposals was in place, which included access to relevant technical advice;
- Segregation of duties was established and respected between those who assessed projects and those who approved projects;

- Key information on project proposals and funded projects was tracked in a database to support program operations; and
- A well defined process for reviewing and processing recipient claims was established.

1.6 Statement Of Assurance

1.6.1 In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report.

1.6.2 The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the entity examined. The evidence was gathered in compliance with TB policy, directives and standards on internal audit, and the procedures used meet the professional standards of the Institute of Internal Auditors.

Original signed by:

Chief Audit Executive

Date

2 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

2.0.1 This section of the report presents the key observations, based on the evidence and analysis associated with the audit, and provides recommendations for improvement.

2.0.2 Management responses are included and provide:

- An action plan to address each recommendation
- A lead responsible for implementation of the action plan and
- A target date for completion of the implementation of the action plan.

2.0.3 Program Terms and Conditions for the AOP expired on March 31, 2011. Accordingly, the recommendations of this audit have been drafted to support similar, existing contribution programs, as well as future programs.

2.1 Project Eligibility

2.1.1 The AOP was designed to encourage the development of value-added opportunities for the agriculture and agri-food sectors. In this regard, projects were funded to support the commercialization of innovative products, processes and services that would enhance the economic situation of agricultural producers. The Treasury Board submission and AOP Terms and Conditions set out three basic (mandatory) criteria for the assessment of project proposals:

- That the proposed products, processes and services were not commercially produced or available in Canada;
- That they would increase the demand for primary agriculture products produced, or which could be produced, in Canada; and
- That they would lead to the creation of new or enhanced Canadian agriculture value-chains that benefit both primary agriculture and value-added stakeholders.

2.1.2 It was not evident from project assessment documents how seven of the 27 projects funded under the AOP met the basic criterion of increasing the demand for Canadian primary agriculture products. Program staff indicated that this criterion was interpreted more broadly, to include projects that 'demonstrated value' to the agriculture and agri-food sectors and that would lead to a direct increase in demand for Canadian agricultural products as inputs to the projects themselves, or an indirect increase in demand for Canadian agricultural products stemming from the adoption of the innovative product, technology or service resulting from the project.

2.1.3 The audit found that the project assessments did consider the value of these projects to the agriculture and agri-food sectors but did not sufficiently document how these seven projects would increase the demand for primary agriculture products, which was a basic project criterion.

Recommendation 1:

2.1.4 The ADM, FFPB should reinforce with program managers the need to ensure that project assessments are clearly documented as to how all mandatory criteria have been met.

Management Response:

The need for and value of well documented due diligence is acknowledged and it forms an important element of FFPB's program management.

Action Plan

- COPE will work with program managers to establish due diligence guidelines. These guidelines will identify mandatory elements of project assessment to be used by grants and contributions programs, including the requirement to not only identify that each mandatory eligibility criterion is met, but to demonstrate how it is met. The guidelines will be distributed for use by program managers for current and future programs.

Lead(s) Responsible: DG, COPE

Target Date for Completion: March 2012

2.2 Industry Review Committee

2.2.1 A national Industry Review Committee (IRC) was established to provide independent, objective and expert advice on the potential benefits and risks of projects submitted for funding consideration under AOP and on program issues and matters that may be relevant to the overall effective management of the program. As part of the AOP project assessment process, the IRC met to discuss the merits of proposed projects and to provide advice in support of project approval or rejection by the Department.

2.2.2 The IRC Terms of Reference (TOR) and IRC member contracts stated that a written summary analysis was to be prepared for each project proposal reviewed by the committee, and was to include the rationale for its advice on the approval or rejection of the project. While the file sample confirmed that projects were reviewed by the IRC and that notes were taken (by AOP staff members) to capture discussion points and advice provided by the IRC, written summaries with the rationale in support of the IRC advice were not prepared as per the committee's TOR.

2.2.3 Recording the rationale in support of IRC advice, and obtaining the committee's approval of these records, would have helped to ensure that the potential benefits and risks of the projects were fully documented as part of the project approval process.

Recommendation 2:

2.2.4 The ADM, FFPB should provide direction to program managers to ensure that the advice of advisory committees in support of funding decisions is fully documented, including the supporting rationale, and reviewed by the committees.

Management Response:

The need for and value of well documented due diligence, including advice from advisory committees when such committees are utilized, is acknowledged and it forms an important element of FFPB's program management.

Action Plan

- COPE will work with program managers to establish due diligence guidelines. These guidelines will set out how input from advisory committees is to be provided, documented and reviewed in support of AAFC due diligence. These guidelines will be distributed for use by program managers for current and future programs.

Lead(s) Responsible: DG, COPE

Target Date for Completion: March 2012

2.3 Recipient Monitoring

2.3.1 The 2008 TBS *Policy on Transfer Payments* (as well as the 2000 policy) requires that departments ensure recipient compliance with funding agreement obligations and performance objectives through monitoring activities such as the timely assessment of recipient reports. In this regard, the RMAF/RBAF for AOP (June 2007) stated that recipient reporting would facilitate the timely identification of clients experiencing difficulties, and allow for corrective action as required.

2.3.2 Interviews with AOP staff and review of monitoring documentation on project files confirmed that a variety of project monitoring activities occurred under the program and that staff were knowledgeable about the projects and recipients they administered. However, the audit found that AOP policies and procedures did not adequately define recipient monitoring requirements for AOP staff. While the Program Manual for AOP refers to the need for certain monitoring activities, it did not describe the detailed nature of the work to be completed. By way of example, the Manual identified the need to conduct site visits, but it did not define what might be accomplished through such visits (e.g. verify the existence of equipment budgeted and claimed under an agreement, obtaining evidence that marketing plans were being implemented). The audit also found that the

Program Manual did not specify the level of documentation required to demonstrate that adequate monitoring had taken place.

2.3.3 The audit also found that many recipients had not been submitting their annual reports in a timely manner. For the projects sampled, approximately half of the annual Financial Statements and Performance Reports due from recipients were not submitted as per contribution agreement terms and conditions. However, the audit also found that AOP took steps to correct this situation in the last year by establishing a process in the past year for following up on outstanding reports, including the withholding of payments until outstanding reports were received.

2.3.4 While the professional judgement of program managers is essential in identifying appropriate monitoring and reporting activities in relation to recipient risk, establishing general parameters for the monitoring of recipient compliance with the obligations and performance objectives of funding agreements would help ensure greater consistency and that minimum requirements are met.

Recommendation 3:

2.3.5 The ADM, FFPB should provide program managers with general guidance and direction for establishing recipient monitoring procedures and guidelines, including procedures to help ensure compliance with recipient reporting requirements.

Management Response:

The need for and value of effective, risk-based project monitoring is acknowledged and it forms an important element of FFPB's program management.

Action Plan

- COPE will work with program managers to establish guidelines and direction for establishing risk-based recipient monitoring procedures and guidelines, including procedures to help ensure compliance with recipient reporting requirements. The guidelines and direction will be distributed for use by program managers for current and future programs.

Lead(s) Responsible: DG, COPE

Target Date for Completion: March 2012

2.4 Repayable Contribution Agreements as AAFC Receivables

2.4.1 Treasury Board Accounting Standard 3.2 and AAFC's Accounting Policy on Loans, Investments and Advances require that unconditionally repayable contributions, such as

those established under the AOP, be accounted for as loans in the Department's Statement of Financial Position. The Internal Audit Division noted that work is underway within the Department to establish repayable contribution agreements as receivables in AAFC's financial system (Saturn) and that this work would be complete by August 2011.

Appendix A: Audit Criteria

Criteria	Sub-Criteria
Line of Enquiry I: Program Governance	
1. Policies, procedures, and roles and responsibilities are developed and communicated to ensure that the program is applied consistently and effectively, within the program terms and conditions and other relevant policy requirements.	1.1 Program procedures and guidelines have been developed based on approved terms and conditions and provide program managers and program officers with the information required to operate within program terms and conditions.
	1.2 Clear roles and responsibilities that are consistent with departmental practice (e.g. delegation of authorities) have been communicated formally to all program staff.
	1.3 Clear roles and responsibilities have been established and communicated in regard to all oversight bodies.
2. Program staff are provided with the necessary tools and training to effectively manage and administer the program.	2.1 Supporting tools (e.g. eligibility checklists, risk assessment tools, template funding agreements, reporting templates, file management guides) have been developed and provided as required to assist in the effective and efficient management, delivery, and monitoring of the program.
	2.2 The program has leveraged available IM/IT systems to the extent possible to support efficient and effective processes (e.g. automated controls, information management, work flow capabilities).
	2.3 Appropriate training is in place to provide program managers and staff with the knowledge necessary to effectively manage the AOP program (i.e. to assess project proposals).
	2.4 Appropriate training is in place to provide program managers and staff with the knowledge necessary to effectively manage a G and C program.
3. Program performance and financial results are monitored and assessed against established plans and objectives, with lessons learned through monitoring activities incorporated into program management practices.	3.1 Plans and objectives are established.
	3.2 Information on the performance of the program has been collected and analyzed and results have been consolidated to demonstrate program results and effectiveness.
	3.3 Variances between expected and actual results have been identified, analyzed and resolved.
	3.4 Financial monitoring has been conducted, financial information has been collected and analyzed, and results have been consolidated to demonstrate financial performance of the program.
	3.5 Variances between planned and actual expenditures have been identified, investigated and resolved.
	3.6 In the event that it is forecast that program funds will lapse, notification is provided within a reasonable timeframe to ensure that alternatives available can be considered, depending on authorities.
4. A communication strategy has been developed and implemented to promote the program to eligible recipients.	4.1 A communication plan is developed and implemented to ensure targeted recipients are informed of the program and its objectives, eligible criteria and means of application.
	4.2 The risks associated with program uptake have been identified and risk mitigation measures established and implemented.
Line of Enquiry II: Risk Management	

<p>5. A process for on-going and formal risk assessment within the program has been implemented, with corresponding risk mitigation measures established and implemented.</p>	<p>5.1 A process for ongoing and formal risk assessment within the program has been implemented to identify risks that could adversely impact the achievement of program objectives.</p> <p>5.2 Risk mitigation strategies are developed as required to address identified risks and these strategies are implemented, with corresponding management control practices as appropriate.</p>
<p>Line of Enquiry III: Program Specific Controls</p>	
<p>6. The project assessment process is fair, transparent and free of bias; funding recommendations are made in accordance with program terms and conditions and recipient capacity; and decisions are appropriately documented.</p>	<p>6.1 Recipients are assessed for eligibility using established criteria based on the program terms and conditions.</p>
	<p>6.2 Project proposals are subject to a formal eligibility assessment based on program terms and conditions.</p>
	<p>6.3 Program staff understand eligibility criteria/requirements and program and funding authorities.</p>
	<p>6.4 Program staff seeks guidance through established processes in order to receive timely and relevant advice/assistance to support project proposal assessment.</p>
	<p>6.5 Recipient funding levels are determined/assessed based on:</p> <ul style="list-style-type: none"> - a review of the reasonableness of proposed project costs - eligible project costs as defined in program terms and conditions - established recipient contribution levels - other sources of identified and potential funding available to the recipient.
	<p>6.6 Recipients' financial and management capacities, as well as their overall risk level, are appropriately considered in the funding decision process.</p>
	<p>6.7 Segregation of duties are established and respected between those who review and assess eligibility and those who have authority to approve eligibility/funding decisions.</p>
	<p>6.8 Conflict of Interest Policies have been established for the Industry Review Committee and they define the steps to be taken when potential conflicts of interest situations arise.</p>
	<p>6.9 Applicants are informed of funding decisions and if unsuccessful, the reasons for denial.</p>
	<p>6.10 All applications received, considered and assessed are tracked in a database.</p>
	<p>6.11 Documentation exists in support of all funding decisions and which demonstrates that the assessment process has been adhered to.</p>
<p>7. Funding agreements address recipient and initiative risk, clearly define the obligations of the parties and the terms and conditions for receiving funding under the program, and comply with the requirements of TBS' <i>Policy on Transfer Payments</i>.</p>	<p>7.1 Funding agreement are prepared using a department approved contribution agreement template (and therefore address PTP requirements) and includes clear requirements in terms of program standards, accountability, and reporting.</p>
	<p>7.2 Alterations or adaptations made to funding agreement templates have been done to suit specific program terms and conditions or requirements and do not result in non-compliance with PTP requirements.</p>
	<p>7.3 Expected statements of requirements and measurable outcomes and results, against which ongoing monitoring activities can be applied, are explicit in funding agreements and derived from the program terms and conditions.</p>

	7.4 Funding agreement reporting requirements are consistent with the expectations of the program' terms and conditions and with the risks associated with the recipient and the initiative.
	7.5 Funding agreements are signed by the appropriate delegated authority.
	7.6 Changes/alterations to agreements or funding levels have been justified and implemented using appropriate mechanisms (i.e. amendments) and approval processes.
8. Recipient payments are processed and verified in accordance with FAA Section 34 requirements.	8.1 Claims for reimbursement from recipients are reviewed by program staff to ensure that the amounts are eligible for funding under both the contribution agreement and program terms and conditions.
	8.2 Claims for reimbursement from recipients are reviewed by program staff to ensure that the amounts claimed have been incurred.
	8.3 Advance requests from recipients meet both contribution agreement and program terms and conditions, and are consistent with the PTP.
	8.4 Costs incurred prior to the execution of the contribution agreements have only been accepted if provided for in the contribution agreements and program terms and conditions.
	8.5 Certification has been provided by the appropriate delegated authority that the payee is entitled to the payment.
	8.6 Payments/commitments have been tracked to ensure they do not exceed total approved funding.
9. Recipient performance and financial reports are submitted in accordance with funding agreement requirements and are reviewed by program staff to assess compliance with funding agreement terms and conditions.	9.1 Financial reports have been received in accordance with the funding agreement.
	9.2 There is evidence of Financial report review by the program to ensure: 1) recipients are in compliance with their funding agreement 2) funds were used for the purposes intended 3) activities were undertaken in accordance with the terms & conditions of the funding agreement 4) expenditures were eligible as defined within the Terms and Conditions and the funding agreement.
	9.3 Performance reports have been received in accordance with the funding agreement.
	9.4 Performance reports received have been adequately reviewed to ensure information provided is complete, relevant and accurate.
10. Recipient compliance to program and funding agreement terms and conditions is monitored by AOP program staff and through recipient audits based on an established recipient risk framework.	10.1 Program policies establish the requirement for recipient monitoring.
	10.2 The recipient's performance and compliance has been monitored through activities such as site visits, meetings, briefings, telephone conversations and analysis of submitted reports. Activities performed have been commensurate with the risk level assessed.
	10.3 A process has been implemented to assess recipient risk and to prepare monitoring plans, reporting requirements and an annual recipient audit plan based upon those assessments.
	10.4 Recipient Risk Assessments are completed by program staff in support of a planned recipient audits as coordinated within the Department.

11. Repayable contributions are appropriately identified and established as per program terms and conditions, and managed in accordance with TBS' <i>Policy of Transfer Payments</i> .	11.1 Repayable contribution agreements are established as per program terms and conditions and the PTP.
	11.2 Repayable contribution agreements include appropriate repayment terms, including interest charges on overdue payments.
	11.3 Repayable contributions are recognized as debts to the Crown and a system is in place to support follow up and collection.
	11.4 If applicable, that payments that have become due are being collected.