2011

Report of the

Auditor General of Canada

to the House of Commons

FALL

Chapter 3

Payments to Producers—
Agriculture and Agri-Food Canada

Office of the Auditor General of Canada

The Fall 2011 Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 5, Appendices, and five chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 1047D
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

Cat. No. FA1-2011/2-3-PDF
ISBN 978-1-100-19400-4
ISSN 1701-5413

Chapter

3

Payments to Producers—Agriculture and Agri-Food Canada

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance;
- gather the evidence necessary to assess performance against the criteria;
- report both positive and negative findings;
- conclude against the established audit objectives; and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

Table of Contents

Payments to Producers—Agriculture and Agri-Food Canada

Main Points

What we examined

Agriculture and Agri-Food Canada (AAFC) has a mandate to provide information, research and technology, and policies and programs to achieve an environmentally sustainable, innovative, and competitive agriculture sector. The Department's work includes supporting productivity and trade, stabilizing farm incomes, and conducting research. The federal government and the provinces and territories share responsibility for stabilizing farm incomes. Since 2008, they have done so through a joint federal/provincial/territorial agreement called the Growing Forward Framework Agreement.

The Department's programs have played an important role in supporting producers' incomes when market income has dropped. Our audit looked at two programs under Growing Forward that, like the Canadian Agricultural Income Stabilization (CAIS) program they replaced, are aimed at protecting agricultural producers from drops in income. AgriInvest is built around savings accounts, with producers' deposits matched by government contributions; AgriStability is a far more complex program designed to protect against larger drops in income. Costs of the two programs total $1 billion annually, funded 60 percent by the federal government and 40 percent by provinces. About 88 percent of payments under the AgriStability program are now delivered by the provinces.

We also looked at the $284 million Tobacco Transition Program, aimed at replacing the quota system, helping tobacco producers move out of the tobacco industry, and improving the viability of those who remain.

We looked at how the programs were developed, implemented, and administered. In particular, we looked at the quality of the risk assessment process and the process for continuous improvement. We also looked at the design and monitoring of funding and program delivery agreements between the Department and the provinces and territories or delivery organizations. We did not audit the provincial agencies or third-party organizations that participated in the delivery of programs.

Audit work for this chapter was substantially completed on 2 May 2011.

Why it's important

The Canadian agriculture and agri-food industry is vital to Canada's economic success and its food supply. It encompasses several industries, including primary agriculture, input suppliers, food and beverage processing and distribution, and wholesale and retail food industries. According to the Department, this industry accounted for 8.2 percent of total gross domestic product in 2009.

The agricultural sector faces several challenges, including increasing international competition, rapid technological improvements, increased importance of environmental and health concerns, increasing input costs, rapidly evolving consumer preferences, changes in foreign exchange, and more volatility due to weather changes and disease.

What we found

- To improve the design of its producer income support programs, Agriculture and Agri-Food Canada carried out industry consultation, a strategic review, producer surveys, and focus groups. Working with provinces and territories, the Department has made progress on some design issues, but long-standing concerns with AgriStability remain—clarity of program objectives, timely access to program funding, and program complexity that affects producers' ability to reasonably predict payment amounts.
- The Department has made progress in addressing program administration issues raised in our 2007 audit—for example, payment accuracy and management of underpayments to producers. However, it has not systematically followed up on causes of delays in payments to producers in order to accelerate payments. Despite improvement, the Department has not yet met its AgriStability processing time targets, and producers can wait up to two years after an income loss to receive a payment. In addition, the Department has not collected information on processing times for AgriInvest.
- Although federal/provincial/territorial accountabilities for performance reporting were not specified in the Growing Forward Framework Agreement, a performance measurement framework has since been agreed to by all governments. When fully implemented, overall national performance against service standards will be reported to Parliament and the public. With regard to assessing provincial capacity for AgriStability administration and transferring it to the provinces of British Columbia and Saskatchewan in 2010, the Department followed a sound process.
- The Department had to develop the Tobacco Transition Program within a short time frame and did not first conduct a thorough risk analysis. The agreement implementing the program did not provide clear terms and conditions to ensure that recipients would not enter

into business arrangements that would undermine the intent of the program. In addition, a number of times the Department changed its interpretation of what was and was not allowed under the Agreement, resulting in confusion for producers. As a result, the Department was successful in controlling some, but not all, business arrangements that it believed would undermine the intent of the program.

The Department has responded. The Department agrees with all of our recommendations. Its responses follow each recommendation throughout the chapter.

Introduction

Farm income support programs

3.1 Agriculture and Agri-Food Canada has a mandate to provide information, research and technology, and policies and programs to achieve an environmentally sustainable, innovative, and competitive agriculture sector. The Department's work includes supporting productivity and trade, stabilizing farm incomes, and conducting research. The Department has administered various farm income support programs since the late 1930s. The Department's programs have played an important role in supporting **agricultural producers**' incomes when market income has dropped.

Agricultural producers—Those who produce

- livestock, poultry, related products (for example, eggs, dairy, and meat), and ranch fur products (for example, mink, fox);
- crop and plant products (for example, wheat, barley, oats, corn, fruit, nuts, vegetables, and tobacco); and
- nursery products (for example, trees, shrubs, annual and perennial plants).

3.2 In 2008, the Department entered into a joint federal/provincial/territorial agreement called the Growing Forward Framework Agreement. This five-year agreement expires on 31 March 2013, and a successor framework, called Growing Forward 2, is to be implemented on 1 April 2013. New framework agreements have to be negotiated and approved by federal/provincial/territorial governments.

3.3 The Growing Forward Framework Agreement includes two programs aimed at protecting agricultural producers from drops in income. AgriInvest is built around savings accounts, with producers' deposits matched by government contributions. For example, if a producer deposits $1,000, the government will match this with $1,000. There is a maximum that each producer can deposit. AgriStability is a far more complex program designed to protect against larger drops in income. AgriStability payments are based on specific farm information, such as the number and type of crops and livestock, and farm sales and expenses over a number of years.

3.4 Costs of the two programs total $1 billion annually and are funded 60 percent by the federal government and 40 percent by provinces. For the 2009–10 fiscal year, the Department spent about $15 million administering AgriInvest and $40 million administering AgriStability. The provinces spent $44 million to administer AgriStability in the same year.

3.5 AgriInvest and AgriStability have significant similarities to two predecessor programs, the Net Income Stabilization Account (NISA) and the Canadian Agricultural Income Stabilization (CAIS) program. Exhibit 3.1 provides a summary of farm income support programs from 1991 to present. In 2008, AgriStability, together with AgriInvest, replaced the coverage previously provided under the CAIS program.

3.6 Like the CAIS program, four provinces (Alberta, Ontario, Quebec, and Prince Edward Island) delivered AgriStability from the start. Saskatchewan and British Columbia assumed program delivery in January 2010. The six provinces now deliver about 88 percent of AgriStability payment dollars, and the Department delivers the remaining 12 percent of payment dollars to the other provinces. Prior to 2010, the Department delivered about 34 percent of AgriStability payments to producers.

Exhibit 3.1 Summary of farm income support programs

Program years[1]	Annual program contribution	Number of participants	Criteria	Delivery organization
Net Income Stabilization Account (NISA) 1991–2002	$347 million (1998–2002 average)	Over 144,466 (1998–2002 average)	Savings account matched by government funds—proof of loss required to access funds	Agriculture and Agri-Food Canada (AAFC)
Canadian Agricultural Income Stabilization (CAIS) 2003–2006	$1.3 billion (2003–2006 average)	137,036 (2003–2006 average)	Covers income losses when farm income from current year is less than average farm income from previous years Intended to help producers protect their operations from declines in income	Provincial—Alberta, Ontario, Quebec, Prince Edward Island AAFC—all other provinces and territories
AgriInvest (similar to NISA) 2007–2012	$279 million (2007–2009 average) + $563 million Kickstart (one-time payment in 2008)	140,894 (2007–2009 average)	Covers smaller income declines (15 percent or less), previously covered under CAIS Savings account matched by government funds—no proof of loss required to access funds Limited to 1.5 percent of allowable net sales[2] Maximum payment is $22,500 per producer.	AAFC, Quebec
AgriStability (similar to CAIS) 2007–2012	$731 million (2007–2009 average)	109,870 (2007–2009 average)	Covers income declines greater than 15 percent, previously covered under CAIS Covers income losses when farm income from current year is less than average farm income from previous years Farm income calculations are based on individual producer data and income tax information.	Provincial—Alberta, Ontario, Quebec, Prince Edward Island (British Columbia and Saskatchewan as of January 2010) AAFC—all other provinces and territories

[1]Based on program year. The processing of producer applications and payments occurs after the program or growing year is complete.

[2]Allowable net sales means eligible agricultural commodity sales net of allowable expenses. Eligible agricultural commodities are livestock and/or crops specified by the Department.

Source: Agriculture and Agri-Food Canada

3.7 The Department also implements one-time programs to address specific industry problems. One such program is the Tobacco Transition Program, which the federal government announced in 2008. Efforts have been undertaken previously, through two federal programs in 1987 and 2005 as well as complementary provincial programs, to help farmers exit from tobacco farming and improve the viability of remaining tobacco farmers.

Focus of the audit

3.8 Our audit included three programs involving payments to producers—AgriInvest, AgriStability, and the Tobacco Transition Program. We examined whether the Department followed a risk-based approach in developing and implementing its payments to producers programs—in particular, whether it

- followed a risk-based, lessons-learned approach in developing and improving the programs; and
- established clear accountability and monitoring practices in implementing the programs.

3.9 The audit focused on the process followed and action taken to develop, implement, and continuously improve the programs, including use of lessons learned, identification of risks and management of those risks, and use of program evaluation and strategic review findings. This included reviewing the Department's progress in carrying out its commitments in response to the recommendations from our audit of the CAIS program in 2007. We also looked at the Department's use of input from producers, **partners**, and **stakeholders** to improve program design and administration. As part of our audit, we looked at the process followed in transferring administration of AgriStability to the provinces of British Columbia and Saskatchewan.

Partners—Provinces, territories, and service delivery providers, such as financial institutions (banks and credit unions).

Stakeholders—Industry groups representing agricultural sectors, such as dairy farmers and pork producers.

3.10 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Improving program design

3.11 Stabilizing farm incomes is a shared responsibility between the federal government, provinces, and territories. A key policy outcome of the Growing Forward Framework Agreement is that farm income support programs are to be timely, responsive, and predictable. Changes to program design need to be negotiated with the provinces and territories, and requirements for administering the programs are included in the Agreement and its Program Guidelines.

3.12 The Treasury Board's Integrated Risk Management Framework requires that plans, processes, and products be developed through ongoing consultation with stakeholders who may be affected by an organization's decisions and actions. In our 2008 chapter entitled Managing Environmental Programming, we recommended that Agriculture and Agri-Food Canada prepare a schedule of review and consultation through the life of the Growing Forward Framework Agreement to ensure a smooth and timely transition to future policy frameworks. The Department agreed and indicated that it would also assess the strengths and weaknesses of past approaches.

3.13 We examined a number of initiatives carried out by the Department to improve the design of two producer income support programs, AgriStability and AgriInvest. These initiatives included industry consultation, a strategic review, producer surveys, and focus groups. Some of these initiatives were undertaken with the transformation of the Canadian Agricultural Income Stabilization (CAIS) program to AgriStability and AgriInvest. Other more recent initiatives have been carried out in preparing for the next income support framework—Growing Forward 2, to be implemented in 2013.

3.14 During the life cycle of the CAIS program (2004–2007 program years), the Department carried out the following initiatives in the redesign to AgriStability and AgriInvest:

- The CAIS Task Team was formed to provide program options (2006).
- Industry consultations were held (2006–07).

In addition, there was input from two joint government/industry standing committees—the National CAIS Committee and the National Safety Nets Advisory Committee.

3.15 To provide input to the development of Growing Forward 2, the Department carried out the following additional initiatives:

- A survey was conducted to gather producer feedback on service (2009).
- A survey was conducted on farm risks and how the farm income support programs are helping (2010).
- Focus groups on service quality were held (2009–10).
- A strategic review was conducted to address continuing pressures for program changes (2008–10).
- As well, there has been ongoing input from a new joint government/industry committee—the National Program Advisory Committee.

Progress has been made on some design issues, but long-standing problems remain

3.16 **Improved design.** The CAIS Task Team proposed three program design changes, which were approved by federal/provincial/territorial ministers. These resulted in a more accurate assessment of producers' inventories (numbers of livestock and/or harvested crops on hand), improved payments to producers facing back-to-back losses, and an early partial AgriStability payment option for producers experiencing a regional or sector-wide disaster.

3.17 During the industry consultations held in the 2006–07 fiscal year, producers indicated that some portion of a producer's income loss should be replaced with a program similar to the earlier NISA-type program (producers' savings account deposits matched by government). The AgriInvest program was therefore implemented to replace the support previously provided by the CAIS program for the first 15 percent of income loss with a savings account program. Producer deposits are matched by contributions from the federal and provincial governments. AgriInvest amounts received by producers are more predictable and simpler to administer than the previous CAIS payments.

3.18 **Delayed implementation of program.** The Department planned to have an agreement with financial institutions in the fall of 2008, so that AgriInvest accounts would be in place by 2009. However, financial institutions were reluctant to take part in the program as presented, in part because producers could withdraw the funds at any time (which could limit the recovery of the costs of setting up AgriInvest bank accounts).

3.19 Financial institutions were also concerned that the Department might waive the producer deposit requirement, as it had done for the 2003 to 2005 CAIS program years. This would again limit cost recovery from account balances. In addition, the government proposed a new Information Technology (IT) transfer system that was not compatible with their systems, instead of using existing IT systems that were compatible. Given the economic climate at the time, the financial institutions were reluctant to incur the infrastructure costs to set up the accounts, only to have the deposit requirement waived and the program potentially end a few years later.

3.20 In addition, financial institutions found the Department's timeline for preparing to deliver the AgriInvest program unrealistic. As a result, the Department had to administer the AgriInvest accounts until financial institutions were ready to take them over. As of May 2011, more than one third of producer accounts, representing 12 percent of account balances, were still being administered by the Department and not by the financial institutions. For the first three program years of a five-year program, producers had different processes for participating in AgriInvest.

3.21 Despite the delay in implementing the program through financial institutions, producers benefited because they were not required to make a matching deposit. In 2008, producers received about $563 million in AgriInvest Kickstart funds (Exhibit 3.1), with no matching deposit required. As well, for the 2007 program year, the government's share was provided, but the Department waived the deposit requirement for producers. For the 2008 and 2009 program years, a deposit by producers was required to obtain the government's matching funds.

3.22 **Long-standing problems.** The Department conducted two surveys and a set of focus groups in 2009 and 2010. Survey participants indicated that farm income support programs helped them to minimize financial risk. However, the survey reports indicated that for AgriStability**,**

- users were less satisfied than users of other farm income support programs;
- timeliness of payments to producers was a concern;
- producers found that fulfilling program requirements was burdensome;

- barriers to producers applying to the programs were related to the complexity of the program, lack of payment predictability, and cost of preparing program applications; and
- program information was easy to find but difficult to understand.

3.23 Producers have previously raised similar concerns about the CAIS program. For complex programs like CAIS and AgriStability, where the payment is based on specific farm information over a number of years, there is an inevitable trade-off between program specificity and timeliness of payment. The more tailored the payment is to the farm operation, the more complex the calculation becomes and the longer it takes to process the application. The Department, with the provinces, has to find the balance between these trade-offs.

3.24 The Department informed us that it has received some input on these trade-offs from producer representatives. Obtaining this feedback is important for the Department to be aware of the priority of producers' concerns and to help manage producers' expectations for program modification.

3.25 The Department has presented various options to address long-standing concerns of producers to the federal/provincial/territorial working groups that oversee the income support programs. Despite the initiatives to improve program design, efforts to address the long-standing issues of program complexity, predictability, and timeliness of payments to producers have had only limited success. It may be necessary to further engage the agricultural sector industry representatives and producers to ensure that trade-offs between targeting and timeliness are understood.

3.26 Another long-standing problem is understanding program objectives and responsibilities for managing farm income risks. From 2008 to 2010, the Department conducted a strategic review to address pressures from producers and industry for program improvements. The review found a lack of clarity in the roles and responsibilities for producers, industry, and government relative to farm income risk management. It also found that objectives for income support programs needed to be clarified. The review concluded that these factors may have contributed to the current discontent and differing expectations of producers.

3.27 **In summary.** We found that the Department is aware of and has identified concerns with its income support programs. Federal/provincial/territorial governments have made some improvements to program design—for example, by introducing AgriInvest. However, long-standing concerns remain, including unclear program objectives, lack of timely access to program funding, and program complexity that affects producers' ability to reasonably predict payment amounts. Department officials have indicated that they are aware of these concerns and are discussing their implications during their consultation with industry and provincial/territorial partners for Growing Forward 2 programs.

3.28 **Recommendation.** Agriculture and Agri-Food Canada should work with provinces and territories to help increase producers' and stakeholders' understanding of the objectives and trade-offs of income support programs and to clarify government's and producers' responsibilities for managing farm risks.

The Department's response. Agreed. The current suite of programs was designed with industry to respond to the needs of producers. In conjunction with provincial and territorial governments, the Department continues to consult extensively with industry in the development of programming, most recently through two rounds of industry engagement on the next generation of the agricultural policy framework (Growing Forward 2). Through future rounds of broad-based engagement, as well as more targeted sessions with producers, their associations, and formal mechanisms such as through the National Programs Advisory Committee, the Department will continue to gain a common understanding with producers of the respective roles in managing risk, of the objectives of programming, and of the inherent trade-offs within programs. This recommendation will be fully implemented with Growing Forward 2 in April 2013.

3.29 **Recommendation**. Agriculture and Agri-Food Canada should work with service delivery partners to understand their challenges and develop and monitor realistic implementation timelines for future income support programs.

The Department's response. Agreed. In delivering programs, the Department's objective is to ensure that the intended benefits of programming are available to participants in a timely manner. Under the Growing Forward 2 policy framework, the Department will actively engage service delivery partners in the process of developing and implementing income support programs. Officials will work with these partners to ensure that challenges are identified and documented, and that workable and timely solutions are developed to secure appropriate service delivery for producers. As it did with the delivery of AgriInvest, the Department will also ensure that contingency plans are in place so that producers have access to program benefits despite challenges that may arise with the intended delivery arrangement. By relying on such contingency plans, the Department was able to ensure that producers had access to AgriInvest funding, although the infrastructure with financial institutions was not in place for the 2007 and 2008 program years. This recommendation will be fully implemented with Growing Forward 2 by April 2013.

Improving program administration

3.30 In our 2007 audit, we raised concerns about Agriculture and Agri-Food Canada's administration of the CAIS program. The Treasury Board's Framework for Service Improvement requires departments to have systems in place aimed at continuous improvement. As well, the Treasury Board's Risk Management Policy requires departments to analyze and assess the risks identified and to implement cost-effective prevention, reduction, or avoidance control measures. We examined the Department's progress on previous audit findings, and its monitoring of evaluation recommendations, risk management strategies, and causes of delays to timely processing.

The Department has made progress on previous audit findings

3.31 We found that the Department has made progress on some key administrative issues raised in our 2007 CAIS audit. At that time, we noted that the Department's method of calculating payments (also referred to as benefits in the Department) was not clear to producers. Our current audit found that the Department has made several improvements to the Calculation of Benefit Statement, such as including a summary and explanation of changes to submitted application forms.

3.32 In 2007, we found that the Department's focus on overpayments to producers was not proportional to the risk of producer underpayments. In our current audit, we found that the Department has made enhancements to its policies and procedures to better balance the identification and management of over- and underpayments, including improvements to the automated validation of applications and the audits of producers.

3.33 For AgriStability, part of the Department's quality control system is to review samples of payments after they have been issued to assess whether payments have been accurately calculated. In our 2007 audit, we found that the accuracy rate was close to the performance target of 97 percent; our current audit found that the payment accuracy rate for the 2008 program year is close to 98 percent, exceeding the target.

3.34 The Department also reviews samples of AgriStability payments before they are issued to determine the error rate and correct the payments before issuing them. We found that pre-payment errors have decreased, from 12.3 percent in 2005 to 3.7 percent in 2008.

Monitoring of key planned actions needs improvement

3.35 **Program evaluation.** An evaluation of the CAIS program was reported in 2007. The evaluation report noted that its scope was limited by the lack of recent performance information, by the lack of survey data to provide insights into producer feedback, and by other things.

3.36 As a result, the evaluation recommended a number of administrative improvements, such as the development of more timely performance information and data showing the link between income support programs and producers' ability to manage risks and be profitable and viable in the long term.

3.37 The Department established an action plan subsequent to the evaluation. All actions were to be completed by 2008; however, this was not achieved. We found a lack of systematic tracking of progress against the planned actions and little progress on some recommendations compared with others. For example, while the Department developed a sound performance measurement framework in August 2009 for the successor program AgriStability, it has made little progress in improving communication to producers on their farm risk management responsibilities.

3.38 **Risk mitigation.** We found that program risk assessments were prepared for AgriStability and AgriInvest. Identified risks included producer confusion about the transition from the CAIS program to AgriStability and AgriInvest, and impacts on the AgriInvest program related to potential delays in developing new computer systems.

3.39 We found that there was no formal mechanism to track actions against mitigation strategies at the program level, and clear dates for carrying out mitigation strategies were not specified. Some of the identified risks materialized, such as continued producer confusion about the payment calculation for AgriStability. Delineation of risk management activities and timelines as well as periodic monitoring of progress are essential to mitigating risks on a timely basis.

3.40 **Recommendation.** Agriculture and Agri-Food Canada should develop and implement formal tracking and reporting systems to ensure that key planned actions for AgriStability and AgriInvest are carried out as expected.

The Department's response. Agreed. As a matter of practice, we work with provinces and territories to monitor, assess, and evaluate programs with a view to continuous improvement. The development of farm income support programs under the current Growing Forward Framework Agreement was informed by audits, evaluation, reviews, and assessments. As this type of work is undertaken for the next framework agreement, officials will implement a formal system to track documents to demonstrate the actions taken to address the recommendations, proposed actions, and risk-mitigating strategies that are carried out. This recommendation will be fully implemented with Growing Forward 2 by April 2013.

Further work is needed to improve the timeliness of payments to producers

3.41 **AgriStability.** The Department established a service standard for processing 75 percent of applications within 75 calendar days of receiving a complete application. Calculation of processing time does not start until the Department has received a completed program application, the required fees, and the relevant information from the Canada Revenue Agency. The Department has yet to meet its time standard for AgriStability payments, although there has been improvement over time. According to how the Department reports its performance against the service standard, its reported performance improved significantly from 38 to 66 percent, from the 2005 to the 2008 program year.

3.42 However, we noted that the Department publicly reports only on applications processed in determining its success in meeting the service standard. If it included the backlog of applications that have not yet been processed, its monthly success rate would drop. For example, in January 2011, 23 percent of processed applications for the 2009 program year met the 75-day standard. However, when unprocessed applications already beyond the 75-day standard were included, only 11 percent met the 75-day service standard.

3.43 We found that it could take up to two years for a producer to receive a payment, subsequent to an income loss. A recent analysis of payment timeliness conducted by the Department shows that 55 percent of producers are paid within 9 months following the year of loss, and 85 percent are paid within 19 months of the year of loss. The Department has completed some analysis to identify the causes of payment delays. However, it has not systematically followed up on the causes of delays and identified remedies to accelerate payment timeliness.

3.44 To provide more timely support, the Department provides an interim AgriStability payment option. This provides earlier access to 50 percent of the estimated payment. However, use by producers has been low at 5.2 percent for the 2009 program year and 1.6 percent for the previous year. Furthermore, we found that the majority of interim AgriStability payments were not being processed within the Department's 30-day time standard. Despite this delay, the early AgriStability payment mechanism has been helpful in assisting some producers—for example, hog producers—in dealing with a sector-wide disaster (for example, the H1N1 virus and trade barriers to Canadian exports).

3.45 **AgriInvest.** Providing timely and predictable income support was a key reason for implementing AgriInvest. The application process for AgriInvest requires the producer to submit an application and, once it is approved, deposit funds in the account. These funds are then matched by the Department. Since the program was introduced in 2007, performance reports have not included information on payment timeliness or accuracy for AgriInvest. Without this information, the Department does not know whether AgriInvest payments to producers are timely.

3.46 **Recommendation.** Agriculture and Agri-Food Canada should analyze processing of payments for AgriStability and AgriInvest in a more systematic manner and follow up on remedies to improve the timeliness of payments to producers.

The Department's response. Agreed. The Department is aware of the concerns about the timeliness of program payments. Leading up to the implementation of the current suite of programs, the Department reviewed potential approaches to improving the timeliness of payments in a number of venues with industry, as well as with provincial and territorial governments. The Department will more systematically review the design of income support programming as part of Growing Forward 2 discussions and will analyze its payment processes to improve the timeliness of processing of payments. In that regard, the recent implementation of an updated application processing system will provide the Department with the capacity to produce more systematic reporting on application processing. The Department will use the reporting capacity to further improve the timeliness of producer payments. This recommendation will be fully implemented with Growing Forward 2 by April 2013.

Monitoring federal/provincial delivery

3.47 The Growing Forward Framework Agreement allows either federal or provincial administrations to deliver the AgriStability program. In accordance with the Treasury Board's Directive on Transfer Payments, departments are to ensure that delivery organizations or provinces are able to deliver federal programs and that agreements include written accountabilities that are monitored.

3.48 A number of provinces (Alberta, Ontario, Quebec, and Prince Edward Island) administered the CAIS program and subsequently the AgriStability program when it came into effect. They delivered about 60 percent of the AgriStability payments.

3.49 In October 2009, the Government of Canada approved funding to transfer the administration of AgriStability to British Columbia and Saskatchewan. The provinces indicated that they could provide better and more efficient service due to their knowledge of and proximity to producers. By December 2009, agreements with the two provinces were signed and producers were formally advised of the transfer. As of January 2010, the two provinces assumed responsibility for processing all applications in 2009 and subsequent program years. As a result, about 88 percent of AgriStability payment dollars are now delivered by the six provinces, and Agriculture and Agri-Food Canada delivers the remaining 12 percent of payment dollars to the other provinces.

3.50 We examined the transfer of the administration of the AgriStability program to the provinces of British Columbia and Saskatchewan, and whether financial and performance reporting requirements for both AgriStability and AgriInvest were met.

Transfer of AgriStability administration was sound, but monitoring responsibilities were not clear

3.51 **Transferring AgriStability administration.** We examined whether the Department ensured that the provinces of British Columbia and Saskatchewan had the capacity to deliver the program. Provinces were required to formally express interest in the delivery of AgriStability and then to present a **business case** to support their request. British Columbia submitted its business case in February 2009 and Saskatchewan in May 2009.

Business case—Within a Government of Canada context, a business case is a proposal by an organization seeking approval for an initiative or project. It provides the information necessary to make an informed decision about whether to proceed. It is also the basis against which outcomes will be compared and evaluated.

3.52 We found that the Department and provinces consulted extensively on the business cases to ensure that they had an understanding of their responsibilities in delivering the AgriStability program. The provinces engaged third parties to review their business cases. The Department analyzed the provincial business cases and the third-party reviews of them. It also ensured that the provinces had the capacity to deliver the programs—for example, it ensured that the provinces hired and trained sufficient numbers of staff to successfully deliver the AgriStability program.

3.53 The provinces committed to improving customer service and reducing administrative costs over time. These commitments included

- improved collection of customer service feedback,
- reduced administrative costs,
- improved communication with clients, and
- audits of payments to producers conducted by provinces.

3.54 **Monitoring provincial commitments.** The Department reviews administration and program costs to verify its 60 percent share of overall costs. However, we found that roles and responsibilities were not clear for post-transfer monitoring of all the commitments made by the provinces. It was not clear whether the provinces or the federal government should be reporting on these commitments and whether reporting should be only internal or also to the public.

3.55 **Recommendation.** Agriculture and Agri-Food Canada should add, to its future business case requirements, the need for a proposal from the provinces on whether the federal government or provincial governments will monitor and report on commitments in the business case.

The Department's response. Agreed. The Department will clarify how the monitoring and reporting of key provincial commitments (not already covered by existing mechanisms) should be addressed in any future business cases.

Audit and financial reporting requirements were substantially met

3.56 The Growing Forward Framework Agreement includes some monitoring provisions that enable each of the parties to confirm that the program is being administered according to the terms and conditions of the Agreement. These include preparing audited financial reconciliations of program payments and administrative expenses and carrying out compliance audits of provincial administrators.

3.57 We found that federal and provincial administrators had completed the audited reconciliations of program payments and administrative costs for the year ended 31 March 2009 within or close to the time limit stipulated in the Growing Forward Framework Agreement.

3.58 The last time the Department carried out compliance audits of all program delivery administrators was for the 2005 CAIS program year. The Department told us that starting in the 2010–11 fiscal year, it planned to synchronize AgriStability compliance audits with audits of another federal farm program also administered by the provinces. Plans to audit one to three provincial administrations per year mean that, for some provincial administrators, there could be a six- to seven-year gap between compliance audits. Potential problems in program administration may not be known for many years, thereby preventing timely improvements to current and future programs.

Overall program performance is not publicly reported

3.59 The Department is delivering about 12 percent of program payments for AgriStability—a forecasted $100 million for the 2010 program year, while the provinces are delivering the remaining 88 percent—about $705 million. The Department delivers payments for AgriInvest in all provinces except Quebec. It is delivering $254 million while Quebec is delivering about $35 million (about 12 percent).

3.60 The Growing Forward Framework Agreement was signed by all provinces. According to the Agreement, each party is to be subject to public scrutiny, and for reporting purposes, its work must be managed in a manner that is open and transparent to the public. However, the Agreement does not specify the nature and frequency of performance information to be shared by the parties to the Agreement, or the type of information to be reported on publicly.

3.61 Despite these requirements not being in the Growing Forward Framework Agreement, Agriculture and Agri-Food Canada has made progress in designing a performance measurement framework. The Department's new performance measurement framework for farm income support programs has several performance indicators for AgriInvest and AgriStability. These include some important outcome measures, such as the extent to which income support programs respond to producer income losses. The Department and the provinces have agreed to the performance measurement framework, and it has been shared with a joint government/industry committee. Agreement still needs to be obtained with the provinces on some service standards for public reporting.

3.62 The Department has collected and reported internally on performance information on agreed-upon service standards. However, there was an extensive delay in reporting overall results internally. Performance results for a program year cannot be reported until processing of applications is complete. Due to delays in application processing, the first internal performance report was not released until April 2010 for the 2007 program year. Performance results for the 2008 program year were reported in January 2011.

3.63 Given that the performance measurement framework has not yet been fully implemented, the Department does not provide information to the public about overall performance in administering AgriStability, including processing time, accuracy, and administrative cost efficiency. However, it does provide some overall information on producers participating in the program, such as program participation by size of farm and commodity type. Our recommendation is found at paragraph 3.66.

The Department is inconsistent in reporting on its performance to Parliament

3.64 We reviewed the Department's departmental performance reports and associated supplementary tables for the last three fiscal years (2007–08 to 2009–10) related to the CAIS/AgriStability Program to assess whether program results have been consistently identified.

3.65 We found that the reporting of targets and actual results was inconsistent, making year-to-year comparisons very difficult. Some targets and results were included in some years but not in others. Some of the inconsistency was due to the introduction of new programs under the Growing Forward Framework Agreement and changes in government-wide reporting requirements. The Department informed us that it will consistently report on its new performance measurement framework in the future.

3.66 **Recommendation.** Agriculture and Agri-Food Canada should work with the provinces to finalize and fully implement the agreed-upon performance measurement framework and to improve the completeness and timeliness of reporting to Parliament and the public on income support programs.

The Department's response. Agreed. The Department is committed to measuring and reporting on program performance and has developed an income support programs measurement framework with the provinces and territories to do so. The Department will refine the framework and leverage it in its departmental performance reporting so that the reports are consistent and provide Parliament and the public with a complete view of program performance. This recommendation will be fully implemented with Growing Forward 2 by April 2013.

Managing the Tobacco Transition Program

3.67 Agriculture and Agri-Food Canada has frequently had to respond to an agricultural need by means of a one-time program. Particular and tailored strategies are therefore needed to deal with the unique challenges posed by this type of program.

3.68 Our audit examined one such program—the Tobacco Transition Program. This program is not an ongoing farm income support program. It was created to address the severe decline in demand for **flue-cured tobacco** from southern Ontario, which is the primary region in the country for producing flue-cured tobacco.

Flue-cured tobacco—Tobacco that is cured in a kiln with a flue for external heat. This gives the tobacco a unique flavour.

3.69 The Ontario Flue-Cured Tobacco Growers' Marketing Board (Tobacco Marketing Board) was established in 1957 under provincial jurisdiction, as an entity authorized by Ontario law to regulate the sale of flue-cured tobacco leaf. The Board determined the price at which flue-cured tobacco would be sold to manufacturers, and it controlled the amount of flue-cured tobacco that could be grown through a **quota** system (at that time farmers were given a quota (pounds) for flue-cured tobacco production).

Quota—A limited quantity of a particular commodity that is authorized to be produced—in this chapter, the authorized amount of tobacco that can be grown.

3.70 With declining production, the control of producers' entry/exit into the sector, and production and marketing of tobacco through a quota system, was no longer seen as the most appropriate way to manage production in the tobacco sector. Repealing the quota system and providing transition assistance would help to further rationalize the industry and allow tobacco producers to negotiate the price of their tobacco, similar to other agricultural commodities.

3.71 In 2008, the federal government announced the Tobacco Transition Program (TTP). The program had three objectives:

- Remove the supply-managed quota system and implement a licensing system.
- Facilitate the transition of Ontario flue-cured tobacco producers to exit the tobacco industry.
- Improve the viability of remaining and future tobacco producers in southern Ontario.

3.72 The Tobacco Marketing Board delivered the TTP to producers on behalf of the Department. Under this program, tobacco producers who agreed to leave the industry were paid $1.05 per pound of quota. The Tobacco Marketing Board paid out a total of $284 million by May 2009. The provincial government did not contribute funds to the TTP.

3.73 About 1,000 quota holders received payment under the TTP, and more than half were not active tobacco producers at the time. In 2008, 2009, and 2010, there were 446, 118, and 251 active tobacco producers, respectively.

3.74 The terms of the TTP required the Tobacco Marketing Board to remove the quota system and replace it with a licensing system. A licensing system does not limit the amount of tobacco that a producer can grow. Rather, to obtain a licence, a producer of flue-cured tobacco requires a contract of sale with a licensed buyer.

3.75 According to the Treasury Board's Integrated Risk Management Framework, departments are to apply risk management and lessons learned in program design and implementation. In addition, in accordance with the Treasury Board's Directive on Transfer Payments, departments are to ensure that external organizations are able to deliver federal programs and that agreements include written accountabilities that are monitored.

3.76 The Tobacco Transition Program was developed and delivered within a short time frame. The Department received authority to enter into negotiations with the Province of Ontario in July 2008. The government announced the program publicly on 1 August 2008. Payments to producers were to be made by 1 May 2009. It was a challenge to establish design and delivery teams, obtain the appropriate authorities, develop the Funding Agreement with the service provider, and deliver the program in such a short time frame.

3.77 In addition, producers needed to be informed of the program details early to make important business decisions on their participation and on whether they should grow tobacco that year. Greenhouses need to be seeded in March, and tobacco seedlings are planted in the field in early May. Producers had to apply to the TTP by 23 March 2009.

3.78 We examined the Department's risk assessment for the TTP. We also reviewed the Canada-Ontario Tobacco Board Funding Agreement (Funding Agreement) for the program. We reviewed correspondence between the Department and the Tobacco Marketing Board, program information to recipients and the public, and other departmental documentation. Our recommendations for this program appear at paragraphs 3.82 and 3.91.

Key risks in program development were not considered

3.79 The Department did not conduct a thorough risk assessment of the Tobacco Transition Program. However, it carried out various actions to manage risks as they arose. It initially identified only one risk related to the TTP—that the quota system for flue-cured tobacco might not be removed and replaced by a licensing system within the required time frame. We did not see evidence that the importance of other risks was recognized prior to developing and signing the Funding Agreement in February 2009. Examples of other important risks are the following:

- **Inappropriate quota transfers.** For the previous Tobacco Transition Assistance Program in 2005, tobacco farmers were not allowed to transfer their quota once the government announced the program. **Transferring quota** could allow someone who was never involved in tobacco farming to obtain the transition assistance payment, while the original quota holder continues to farm tobacco. The Department did not anticipate this risk or the extent to which it could occur.

Transferring quota—The transfer of tobacco growing rights for quota holders to other individuals.

- **Confusion about program terms.** Another key risk that was not identified at the outset was confusion about program terms among recipients and the Tobacco Marketing Board. Throughout program implementation and afterwards, the Department responded to many complaints and queries from producers, lawyers, and others. The majority related to the business arrangements that TTP recipients could enter into for tobacco production and to the eligibility rules to obtain a licence to grow tobacco. The Department was still clarifying program terms for acceptable business arrangements in May 2009.

3.80 As well, the Department did not develop a formal risk register to identify and monitor risks during delivery of the program for follow-up on actions. However, it reacted quickly to address problems, to the extent possible, when they arose.

3.81 The lack of a thorough risk assessment and associated risk mitigation strategies had significant consequences:

- Key program terms were not defined on a timely basis for producers and the Tobacco Marketing Board.
- Inappropriate quota transfers took place and had to be reversed.

- The Department was successful in controlling some, but not all, business arrangements.
- Unnecessary confusion about acceptable business arrangements persisted, such as the type of arrangements that were allowed between TTP recipients and tobacco producers, including close relatives.

3.82 **Recommendation.** For future one-time payment programs, Agriculture and Agri-Food Canada should conduct a thorough risk assessment during program development and maintain a risk register to support corrections throughout program delivery.

The Department's response. Agreed. The Department recognizes the need to conduct thorough risk analysis and develop mitigation strategies commensurate with program risks when implementing one-time payment programs. Consistent with the Policy on Transfer Payments, the Department is adopting a risk-based management approach to program design and implementation. Additional guidance and tools are under development to guide the development of program risk registers and ongoing risk management practices. This recommendation will be fully implemented by December 2012.

The funding agreement between the Department and the Tobacco Marketing Board was not clear

3.83 The Canada-Ontario Tobacco Board Funding Agreement did not provide clear expectations to the Tobacco Marketing Board on its administration of the Funding Agreement. In particular, it did not prevent quota transfers, and it was also not explicit about the types of relationships allowed between TTP recipients and future tobacco producers so that the intent of the program would not be undermined. The Department of Finance and the Treasury Board of Canada Secretariat recommended the addition of wording to control transactions between related individuals. However, Agriculture and Agri-Food Canada used very broad wording when it drafted the Funding Agreement, which was subsequently approved by the government.

3.84 **Quota transfers**. In March 2009, the Department became aware that a large number of quota transfers to non-quota holders were being exercised. It received complaints that these quota transfers were being done to bypass the TTP conditions. In response to these complaints as well as evidence that tobacco producers were transferring quota to non-farming family members, the Department directed the Tobacco Marketing Board to scrutinize all quota transfers and to deny a licence to anyone whose actions could undermine the purpose and intent of the transition program. The number of quota transfers was reduced from 336 to 22, and quota holders incurred additional legal and accounting expenses in reversing the quota transfers.

3.85 **Business arrangements.** On 9 April 2009, the Department attempted to prevent the Tobacco Marketing Board from allowing certain types of business arrangements, including the following:

- TTP recipients working on their own farm as employees;
- independent children of TTP recipients renting their parents' land and infrastructure, and obtaining a licence to grow tobacco; and
- TTP recipients loaning money to a licensee or co-signing at a bank for a loan for a licensee.

Without clear wording in the Funding Agreement, the Department could not impose its interpretation of the wording on the Tobacco Marketing Board. Therefore, the Department had to reverse its position on these issues on 7 May 2009. This led to additional confusion among producers.

The series of events listed in Exhibit 3.2 shows that the Department did not adequately prepare for the range and type of risks that might affect a program of this nature.

Follow-up initiatives were undertaken

3.86 **External audit.** After the TTP was implemented, the Department engaged external auditors to ensure that the TTP recipients, as well as the Tobacco Marketing Board, had complied with the obligations in the Funding Agreement. The external auditors ensured that the quota system was removed and verified the amount transferred from the Department to the Tobacco Marketing Board. In addition, they reviewed documents related to business arrangements with TTP recipients.

3.87 The external audit found that the Tobacco Marketing Board "did not appear to have issued licences to TTP recipients, their spouses or dependent children." In addition, the external auditors found that 13 (8 percent) business arrangements in 2009 and 56 (15 percent) in 2010 did not appear to be at fair market value. As well, 11 producers did not respond to the auditors' phone calls requesting further information.

Exhibit 3.2 Agriculture and Agri-Food Canada did not adequately prepare for the risks that might affect a program such as the Tobacco Transition Program

Action	Date	Action details
The Department announced the Tobacco Transition Program (TTP).	1 August 2008	The Department issued a fact sheet announcing the TTP and stating that producers who accepted transition assistance would not be able to re-enter tobacco production.
Producers submitted a petition requesting information on the terms and conditions of the program.	15 December 2008	As a result of the petition, the Tobacco Marketing Board arranged a meeting for its membership in February to help producers make informed choices. This was a joint meeting presented by the Department and the Tobacco Marketing Board.
The Department issued a news release/fact sheet.	5 January 2009	The Department provided updated information to producers on program funding, but it was unable, at that time in program development, to specify details on the terms and conditions to participate.
An information session with program details was held for tobacco producers.	18 February 2009	Producers asked a number of questions about their rights as TTP recipients and the rights of family members and relatives to obtain a licence. They also asked about transferring their quota to others. The Department and Tobacco Marketing Board presentation materials did not deal with quota transfers to non-quota holders.
The Department issued a fact sheet to producers to answer questions raised at the information session.	27 February 2009	The fact sheet indicated that the spouse and dependent children of a TTP recipient would not be entitled to a licence. However, an independent child (a child over 18 years of age) would be allowed to obtain a licence and sell tobacco. As well, a TTP recipient could become an employee of another tobacco farm if he/she did not have any direct or indirect interest in the ownership of that farm. The fact sheet was silent on quota transfers.
The Department received complaints about quota transfers.	3 March 2009	The Department became aware that a large number of quota transfers to non-quota holders were being exercised. It received complaints that these quota transfers were being done to bypass the TTP conditions.
The Department issued a letter to the Tobacco Marketing Board.	25 March 2009	In response to signs that tobacco producers were transferring quota to non-farming family members, the Department directed the Tobacco Marketing Board to scrutinize all quota transfers and to deny a licence to anyone whose actions could have the effect of undermining the purpose and intent of the transition program.
Quota transfers were reversed.	25-30 March 2009	The Department had to extend the date of application to the TTP program to 30 March 2009, to allow for reversal of the quota transfers. The number of quota transfers was reduced from 336 to 22.

Exhibit 3.2 Agriculture and Agri-Food Canada did not adequately prepare for the risks that might affect a program such as the Tobacco Transition Program (continued)

Action	Date	Action details
The Department issued a letter to the Tobacco Marketing Board.	9 April 2009	The letter was designed to direct the Tobacco Marketing Board to curtail close business relationships between TTP recipients and their relatives. This included, for example, TTP recipients working on their own farm as employees and children renting their parents' land and infrastructure and obtaining a licence to grow tobacco, when one or more parents was a TTP recipient. The letter was widely distributed to producers.
The Department issued a letter to the Tobacco Marketing Board.	7 May 2009	The Department changed its position on relationships outlined in the letter of 9 April 2009. It communicated to the Tobacco Marketing Board that such arrangements were allowed as long as the business relationship was at arm's length and, for example, rent or wages were at fair market value.
The Department received letters asking for clarity on relationship scenarios.	January to May 2010	Producers were still unclear on various relationship scenarios between TTP recipients and potential licence holders.

3.88 The external auditors noted a trend for TTP recipients to enter into business relationships with family members who have a licence for the production of tobacco. For example, they found that parents who were TTP recipients were leasing land and equipment to their non-dependent children, and adult children (over 18 years of age) who were TTP recipients were leasing land and equipment to their parents. A variety of other business relationships existed, such as between brothers, sisters, grandparents, and in-laws, all of which met the terms and conditions of the program under the Funding Agreement.

3.89 With respect to achievement of program objectives, the external audit concluded the following:

- The objective to eliminate the quota system had been achieved.
- The objective to improve the viability of remaining and future tobacco producers had been achieved (given that tobacco production more than doubled in 2010).
- The objective to facilitate the transition of tobacco producers out of the tobacco industry was not as far advanced. Although TTP recipients were producing other crops, this production represented a small portion of their land. Recipients had also sought non-farm income, including renting their land and equipment to licensees to grow tobacco or becoming tobacco farm employees.

3.90 Lessons learned. The Department carried out a lessons-learned analysis of the program to identify the strengths and weaknesses of its design and implementation. Strengths noted included the following:

- The Department obtained the appropriate approvals and money transfers in time.
- The Department was responsive to producers' calls and contacted them to clarify rules.

Weaknesses noted included the following:

- Producers did not clearly understand the purpose of the program.
- Communication was unclear to the Tobacco Marketing Board about its role and how the program should be implemented.
- The Funding Agreement should have covered quota transfers.
- Greater attention was needed to anticipate issues that might arise.
- The Tobacco Marketing Board is a regulatory body of the Province of Ontario and represents the interests of all Ontario flue-cured tobacco producers. For the purposes of the TTP, this could be seen as being a conflict of interest.

3.91 Recommendation. Agriculture and Agri-Food Canada should

- ensure an appropriate and timely follow-up on the findings of the Department's external audits of the Tobacco Transition Program (TTP), where the auditors raised concerns about business relationships or where producers did not provide the requested information; and
- develop a cost-effective strategy for future monitoring of business arrangements between TTP recipients and licensees, to ensure their appropriateness.

The Department's response. Agreed. The Department has written to the Ontario Flue-Cured Tobacco Grower's Marketing Board to share the results of the audit findings and to set out expected next steps. Further to this follow-up, the Department will also develop a strategy for ongoing monitoring, on a cost-effective basis, of business arrangements between TTP recipients and licensees. This recommendation will be fully implemented by March 2012.

Conclusion

3.92 Our overall audit objective was to determine whether Agriculture and Agri-Food Canada followed a risk-based approach in developing and implementing its payments to producers programs.

3.93 We examined a number of initiatives carried out by the Department to improve the design of its producer income support programs, including industry consultation, strategic review, producer surveys, and focus groups. The Department, working with provinces and territories, has made progress on some design issues but long-standing concerns with AgriStability remain. These include unclear program objectives, lack of timely access to program funding, and program complexity that affects producers' ability to reasonably predict payment amounts. Department officials indicated that they are aware of these issues and are discussing their implications during their consultation with industry and provincial/territorial partners for Growing Forward 2 programs.

3.94 Implementation of AgriInvest through the financial institutions was delayed. For each of the first three program years of a five-year program, producers had a different process for participating in AgriInvest. Despite the delay in implementing the program through financial institutions, producers benefited. They received $563 million in AgriInvest Kickstart funds with no matching deposit required. As well, for the 2007 program year, the Department waived the producer deposit requirement.

3.95 With respect to program administration, the Department has made progress in addressing issues raised in our 2007 audit, such as better managing underpayments to producers and payment accuracy. However, the Department has not systematically followed up on the causes of delays in payments to producers to accelerate payments. Although processing times for AgriStability payments have improved, the Department has not met its targets, and producers can wait up to two years to receive a payment subsequent to an income loss. In addition, the Department has not collected information on processing time for AgriInvest.

3.96 We found that the Department had carried out a risk assessment and identified risk mitigation strategies for AgriInvest and AgriStability. However, it needed to specify risk management activities and timelines and periodically monitor progress on activities.

3.97 While federal/provincial/territorial accountabilities for performance reporting were not specified in the Growing Forward Framework Agreement, a performance measurement framework has since been agreed to by all governments. The provinces now deliver 88 percent of AgriStability payments. Full implementation of the performance measurement framework is needed to provide an overall picture of performance against service standards to Parliament and the public. In addition, we found that the Department followed a sound process in assessing provincial capacity and transferring AgriStability administration to the provinces of British Columbia and Saskatchewan in 2010. However, it was not clear whether the federal government or the provinces would monitor and report on business case commitments.

3.98 The Department had to develop the Tobacco Transition Program within a short time frame and did not first conduct a thorough risk analysis. The agreement implementing the program did not provide clear terms and conditions to ensure that recipients would not enter into business arrangements that would undermine the intent of the program. The Department changed its interpretation of what was and was not allowed under the agreement a number of times, resulting in confusion for producers. As a result, the Department was successful in controlling some, but not all, business arrangements that it believed would undermine the intent of the program.

3.99 For AgriStability and AgriInvest, we concluded that Agriculture and Agri-Food Canada followed a risk-based approach in developing and implementing its payments to producers programs, except for some needed improvements to analysis and follow-up and to public reporting on performance.

3.100 For the Tobacco Transition Program, we concluded that Agriculture and Agri-Food Canada did not follow a risk-based approach in developing and implementing the program.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants (CICA). While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The overall audit objective was to determine whether Agriculture and Agri-Food Canada followed a risk-based approach in developing and implementing its payments to producers programs.

There were two sub-objectives; these were to determine whether Agriculture and Agri-Food Canada

- followed a risk-based, lessons-learned approach in developing and improving the programs; and
- established clear accountability and monitoring practices in implementing the programs.

Scope and approach

The scope of the audit includes three payments to producers programs: AgriInvest, AgriStability, and the Tobacco Transition Program. It also includes the process of transferring administration of AgriStability to Saskatchewan and British Columbia.

The audit focused on

- the process followed to develop and improve the programs;
- the process followed for transferring administration of AgriStability to Saskatchewan and British Columbia; and
- the Department's accountability and monitoring in implementing the programs, including follow-up of our May 2007 chapter that covered the Canadian Agricultural Income Stabilization (CAIS) program.

The Department's internal auditors carried out some of the work on behalf of the Office of the Auditor General team. Specifically, they followed up on recommendations in our 2007 CAIS chapter, as they pertained to AgriStability. In addition, external auditors for the Department conducted follow-up work on the Tobacco Transition Program, as reported in our chapter. We took the steps required by CICA standards for reliance.

During the audit, we collected information through analysis of files, records, reports, and bilateral agreements. We also conducted interviews with the Department's management and staff responsible for the design and delivery of these programs, as well as interviews with third-party delivery organizations (that is, provincial government agencies, financial institutions, and other delivery partners) and stakeholders. The audit included trips to the Department's Farm Income Programs Directorate, located in Winnipeg.

We met with third-party delivery partners, stakeholders, and provincial government agencies; however, we did not audit their work.

Criteria

The criteria used in this audit apply to the time period in which the programs were delivered.

To determine whether Agriculture and Agri-Food Canada followed a risk-based approach in developing and implementing its payments to producers programs, we used the following criteria:

Criteria	Sources
Agriculture and Agri-Food Canada identifies risks specific to each program and the measures that will be used to manage these risks in a timely manner.	• Integrated Risk Management Framework, Treasury Board, 2001
The Department identifies and considers lessons learned in planning the new program.	• Integrated Risk Management Framework, Treasury Board, 2001
Where third-party delivery or provincial delivery was involved, the Department ensures that the delivery organization was suitable to deliver the program.	• Directive on Transfer Payments, Treasury Board, 2008 • Policy on Transfer Payments, Treasury Board, 2000
The Department uses input provided by partners, producers, and stakeholders to identify gaps in communication and to improve program design and operations.	• Communications Policy of the Government of Canada, Treasury Board, 2006 • Integrated Risk Management Framework, Treasury Board, 2001
Program delivery and/or funding agreements between the Department and delivery organizations or provinces include written accountabilities that are monitored.	• Directive on Transfer Payments, Treasury Board, 2008 • Policy on Transfer Payments, Treasury Board, 2000
The Department has systems in place aimed at continuous improvement.	• A Policy Framework for Service Improvement in the Government of Canada, Treasury Board, 2000 • Integrated Risk Management Framework, Treasury Board, 2001

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered both the development and implementation of the programs. For AgriInvest and AgriStability, the audit covered the period between February 2006 and May 2011. For the Tobacco Transition Program, the audit covered the period between May 2004 and May 2011. Audit work for this chapter was substantially completed on 2 May 2011.

Audit team

Assistant Auditor General: Neil Maxwell
Principal: Katherine Rossetti
Director: Dawn Campbell

Alina Dan
Erika Boch

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Improving program design	
3.28 Agriculture and Agri-Food Canada should work with provinces and territories to help increase producers' and stakeholders' understanding of the objectives and trade-offs of income support programs and to clarify government's and producers' responsibilities for managing farm risks. **(3.11–3.27)**	Agreed. The current suite of programs was designed with industry to respond to the needs of producers. In conjunction with provincial and territorial governments, the Department continues to consult extensively with industry in the development of programming, most recently through two rounds of industry engagement on the next generation of the agricultural policy framework (Growing Forward 2). Through future rounds of broad-based engagement, as well as more targeted sessions with producers, their associations, and formal mechanisms such as through the National Programs Advisory Committee, the Department will continue to gain a common understanding with producers of the respective roles in managing risk, of the objectives of programming, and of the inherent trade-offs within programs. This recommendation will be fully implemented with Growing Forward 2 in April 2013.
3.29 Agriculture and Agri-Food Canada should work with service delivery partners to understand their challenges and develop and monitor realistic implementation timelines for future income support programs. **(3.11–3.27)**	Agreed. In delivering programs, the Department's objective is to ensure that the intended benefits of programming are available to participants in a timely manner. Under the Growing Forward 2 policy framework, the Department will actively engage service delivery partners in the process of developing and implementing income support programs. Officials will work with these partners to ensure that challenges are identified and documented, and that workable and timely solutions are developed to secure appropriate service delivery for producers. As it did with the delivery of AgriInvest, the Department will also ensure that contingency plans are in place so that producers have access to program benefits despite challenges that may arise with the intended delivery arrangement. By relying on such contingency plans, the Department was able to ensure that producers had access to AgriInvest funding, although the infrastructure with financial institutions was not in place for the 2007 and 2008 program years. This recommendation will be fully implemented with Growing Forward 2 by April 2013.

Recommendation	Response
Improving program administration	
3.40 Agriculture and Agri-Food Canada should develop and implement formal tracking and reporting systems to ensure that key planned actions for AgriStability and AgriInvest are carried out as expected. **(3.35–3.39)**	Agreed. As a matter of practice, we work with provinces and territories to monitor, assess, and evaluate programs with a view to continuous improvement. The development of farm income support programs under the current Growing Forward Framework Agreement was informed by audits, evaluation, reviews, and assessments. As this type of work is undertaken for the next framework agreement, officials will implement a formal system to track documents to demonstrate the actions taken to address the recommendations, proposed actions, and risk-mitigating strategies that are carried out. This recommendation will be fully implemented with Growing Forward 2 by April 2013.
3.46 Agriculture and Agri-Food Canada should analyze processing of payments for AgriStability and AgriInvest in a more systematic manner and follow up on remedies to improve the timeliness of payments to producers. **(3.41–3.45)**	Agreed. The Department is aware of the concerns about the timeliness of program payments. Leading up to the implementation of the current suite of programs, the Department reviewed potential approaches to improving the timeliness of payments in a number of venues with industry, as well as with provincial and territorial governments. The Department will more systematically review the design of income support programming as part of Growing Forward 2 discussions and will analyze its payment processes to improve the timeliness of processing of payments. In that regard, the recent implementation of an updated application processing system will provide the Department with the capacity to produce more systematic reporting on application processing. The Department will use the reporting capacity to further improve the timeliness of producer payments. This recommendation will be fully implemented with Growing Forward 2 by April 2013.
Monitoring federal/provincial delivery	
3.55 Agriculture and Agri-Food Canada should add, to its future business case requirements, the need for a proposal from the provinces on whether the federal government or provincial governments will monitor and report on commitments in the business case. **(3.47–3.54)**	Agreed. The Department will clarify how the monitoring and reporting of key provincial commitments (not already covered by existing mechanisms) should be addressed in any future business cases.

Recommendation	Response
3.66 Agriculture and Agri-Food Canada should work with the provinces to finalize and fully implement the agreed-upon performance measurement framework and to improve the completeness and timeliness of reporting to Parliament and the public on income support programs. **(3.59–3.65)**	Agreed. The Department is committed to measuring and reporting on program performance and has developed an income support programs measurement framework with the provinces and territories to do so. The Department will refine the framework and leverage it in its departmental performance reporting so that the reports are consistent and provide Parliament and the public with a complete view of program performance. This recommendation will be fully implemented with Growing Forward 2 by April 2013.
Managing the Tobacco Transition Program	
3.82 For future one-time payment programs, Agriculture and Agri-Food Canada should conduct a thorough risk assessment during program development and maintain a risk register to support corrections throughout program delivery. **(3.67–3.81)**	Agreed. The Department recognizes the need to conduct thorough risk analysis and develop mitigation strategies commensurate with program risks when implementing one-time payment programs. Consistent with the Policy on Transfer Payments, the Department is adopting a risk-based management approach to program design and implementation. Additional guidance and tools are under development to guide the development of program risk registers and ongoing risk management practices. This recommendation will be fully implemented by December 2012.
3.91 Agriculture and Agri-Food Canada should • ensure an appropriate and timely follow-up on the findings of the Department's external audits of the Tobacco Transition Program (TTP), where the auditors raised concerns about business relationships or where producers did not provide the requested information; and • develop a cost-effective strategy for future monitoring of business arrangements between TTP recipients and licensees, to ensure their appropriateness. **(3.83–3.90)**	Agreed. The Department has written to the Ontario Flue-Cured Tobacco Grower's Marketing Board to share the results of the audit findings and to set out expected next steps. Further to this follow-up, the Department will also develop a strategy for ongoing monitoring, on a cost-effective basis, of business arrangements between TTP recipients and licensees. This recommendation will be fully implemented by March 2012.

Report of the Auditor General of Canada to the House of Commons—Fall 2011

Main Table of Contents