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# Audit of AgriRecovery – Agricultural Disaster Relief Program (ADRP)

Office of Audit and Evaluation

The AAFC Audit Committee recommended this audit report for approval by the Deputy Minister on March 28, 2013.

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## EXECUTIVE SUMMARY

AgriRecovery is part of the Growing Forward suite of Business Risk Management programs. It was designed to be a disaster relief framework to assist Canadian farmers to quickly return to a pre-event level of business operations or contain the impact of disasters.

AgriRecovery costs are shared 60:40 between the federal and provincial-territorial (PT) governments. Within Agriculture and Agri-food Canada (AAFC), the framework is implemented through the Agricultural Disaster Relief Program (ADRP), organizationally located with the Programs Branch. The ADRP has a maximum authority of \$125 million per Fiscal Year (FY), ending in March 2014. When the annual maximum amount of funding is expended, AAFC can request additional funds to respond to disasters. Disaster relief initiatives are developed jointly by AAFC and the PT governments and PT governments typically provide funding to ultimate recipients (i.e. producers and farm organizations).

Due to the ADRP's materiality and complexity, this internal audit was included in AAFC's 2012-15 Risk-Based Internal Audit Plan. The objective of the audit was to assess the appropriateness, administration and monitoring of ADRP contribution agreements. The audit scope included an examination of ADRP claim files, Program Terms and Conditions, and funding (contribution) agreements.

Controls were generally in place to ensure that ADRP contribution agreements were appropriate, and adequately administered and monitored. Recommendations were made for improvements in the recipient audit clause in future agreements, recipient risk assessments and agreement closeout.

The audit recommendations, addressed to the Assistant Deputy Minister (ADM), Programs Branch, are to ensure that:

- Program management works with the provinces and territories to revisit the recipient audit clause for future ADRP contribution agreements to clarify the authorities of both parties when audits are jointly or independently initiated.
- Program management formally documents risk assessments for all future ADRP contribution agreements.
- All documentation required under the contribution agreements for future ADRP initiatives is obtained, dated and placed on file to support the release of final payments and holdbacks.

## 1.0 INTRODUCTION

### 1.1 BACKGROUND

1.1.1 AgriRecovery is a disaster relief framework and a component of the current suite of Business Risk Management (BRM) programs under Growing Forward. The Framework allows federal, provincial and territorial governments to work together to assess disasters affecting Canadian farmers (e.g. extreme weather, disease, pests) and respond quickly through specific programming. It is designed to assist Canadian Farmers in quickly returning to a pre-event level of business operations and/or containing long-term impacts when a disaster occurs. AgriRecovery funding may apply where funding under the current suite of BRM or other programs does not qualify.

1.1.2 When a regional disaster strikes, one or more affected provinces/territories may request an assessment of the situation/event to determine whether it meets the requirements for funding under AgriRecovery. Assessments are conducted jointly by the federal/provincial/territorial (FPT) governments. An announcement is communicated with details of the initiative including who qualifies and how impacted producers and farm organizations can apply for funding.

1.1.3 The federal government may access funds for AgriRecovery under the Agricultural Disaster Relief Program (ADRP), which operates under the authority of Subsection 12(5) of the *Farm Income Protection Act*. Within the Department of Agriculture and Agri-Food Canada (AAFC), ADRP is administered within the Business Risk Management Programs Directorate of the Programs Branch. The Programs Branch provides funding of up to a maximum of \$125 million per Fiscal Year (FY) to eligible PT recipients to cover the federal share of the costs of joint initiatives put in place under the framework. When the annual maximum amount of funding is expended, AAFC can request additional funds to respond to disasters. Disaster relief initiatives are developed jointly by AAFC and the PT governments and PT governments typically provide funding to ultimate recipients (i.e. producers and farm organizations). Funding of AgriRecovery initiatives is cost-shared on a 60:40 basis between the federal government and the affected PT governments.

1.1.4 Where disaster initiatives are administered by the PT governments to ultimate recipients, delivery risks associated with disaster programming are managed by the PT governments. Under each ADRP contribution agreement that AAFC has with the PTs, AAFC has the right to undertake recipient audits of the relevant PT disaster programs and delivery agents to confirm the eligibility of program expenditures claimed and recover funding, in the case of overpayments. Recipient audits may be initiated and paid for by either party to the contribution agreement or jointly initiated and cost-shared.

1.1.5 The Audit of AgriRecovery – ADRP is included in the 2012-15 Risk-based Audit Plan approved by the Deputy Minister in July 2012.

## **1.2 AUDIT OBJECTIVE**

1.2.1 The objective of this audit was to assess the appropriateness, administration and monitoring of ADRP contribution agreements.

## **1.3 AUDIT SCOPE**

1.3.1 This audit included a review of ADRP claim files for the period January 1, 2010 to December 31, 2011, in order to examine a variety of large and small dollar-value recently completed initiatives. The audit also included an examination of ADRP Terms and Conditions, as well as a sample of funding (contribution) agreements, to ensure that they complied with the Treasury Board Secretariat's (TBS') *Policy on Transfer Payments* (PTP) requirements, and with the aim of providing feedback on the most recent management practices to assist with the development of Growing Forward 2 programming. The audit also examined the ADRP recipient audit process and recipient audit reports produced in FY 2011-12.

1.3.2 Controls residing in Corporate Management Branch (CMB), Finance and Resource Management Services (FRMS) were not considered for testing during the audit's conduct phase, although financial information was gathered to provide context to expenditures (e.g. financial reporting).

1.3.3 A program evaluation of ADRP was completed in August 2011 and was taken into consideration by Internal Audit to avoid duplication of effort.

1.3.4 The audit did not include an assessment of the design and delivery of PT disaster relief programming that receives funding under ADRP, as this is outside the mandate of AAFC's Office of Audit and Evaluation (OAE).

1.3.5 During the audit conduct phase, Internal Audit inquired into whether the budget alignment exercise impacted resources available for the development of ADRP contribution agreements and/or the processing of claims. Internal Audit confirmed that no contribution agreements have been developed since the budget alignment exercise, so the impact on these activities cannot yet be determined.

## **1.4 AUDIT APPROACH**

1.4.1 The audit approach and methodology was 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 the TBS' *Policy on Internal Audit*.

#### 1.4.2 Internal Audit performed the following reviews:

- **Planning Phase:** Internal Audit conducted a risk assessment to determine the audit's objective and scope. The results of OAE's program evaluation of ADRP were considered in the planning of this audit engagement. Based on the risk assessment, the audit criteria and audit program were developed for use in the audit's conduct phase.
- **Document Review:** Internal Audit assessed significant program documentation to obtain an understanding of the program operations, including the tools/templates used by the program staff and examples of reports prepared by program management.
- **File Review:** Internal Audit selected a sample of contribution agreements, claims and payments, and recipient audit reports to review as follows:
  - 10 initiatives with contribution agreements approved after January 1, 2010 and expired by December 31, 2011 were selected in order to examine a variety of large and small completed initiatives.
  - Three of the most recent initiative CAs were selected in order to provide relevant input into future CAs for comparison of contribution agreement (CA) terms with TBS PTP requirements and the Departmental Standard template for CAs.
  - 10 recipient audits from FY 2011-12 and their associated action plans were examined.
- **Interviews:** Internal Audit conducted interviews with members of program staff and management, program financial staff, corporate financial staff, and the Service and Program Excellence Directorate (SPED).

1.4.3 The audit fieldwork took place from September to November 2012.

## 1.5 CONCLUSION

1.5.1 The audit indicated that controls were generally in place to ensure that ADRP contribution agreements were appropriate, adequately administered and monitored.

1.5.2 Recommendations were made for improvements to the recipient audit clause in future agreements, recipient risk assessments and agreement closeout.

## 1.6 STATEMENT OF CONFORMANCE

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 conclusion provided and contained in this report. The conclusion 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 conclusion is applicable only to the entity examined.

1.6.2 This audit conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.



## **2.0 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

2.0.1 This section 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.

### **2.1 CONTRIBUTION AGREEMENT DEVELOPMENT**

2.1.1 Treasury Board's *Policy on Transfer Payments* (PTP) outlines the requirements to be contained in contribution agreements and includes specific requirements for agreements with other orders of government.

2.1.2 The audit found that sampled ADRP contribution agreements contained clauses that addressed all mandatory PTP requirements. In addition, other optional PTP requirements that were expected in an agreement with another level of government were included in the sampled agreements.

2.1.3 The audit identified one area for improvement within the contribution agreement terms specifically related to recipient audit. The recipient audit clause in the ADRP contribution agreements requires that when AAFC initiates a recipient audit, it must consult with the recipient PT government to reach agreement regarding the audit methodology, timing and scope of the audit, production and content of the audit report, terms of reference and mutual retainer of the third-party auditor. The Department's standard recipient audit clause gives AAFC full authority over the development, conduct and reporting of recipient audits.

2.1.4 The ADRP audit clause was developed to provide flexibility to the PT governments with regard to audit timing, given the high number of BRM audits that take place each year and to allow the PTs to provide input into jointly initiated and cost-shared audits of ADRP delivery agents. In the past, the PTs have not exercised their rights under the clause with regards to recipient audits and AAFC has independently completed 10 recipient audits which were not cost-shared with the affected PTs.

2.1.5 The ADRP recipient audit clause could be clarified to specify that agreement on audit development (e.g. methodology, scope, audit report contents, and third-party auditor selection) is only required in cases of jointly initiated and cost-shared recipient audits. Where audits of delivery agents are independently developed and paid for, it is

expected that AAFC and the affected PTs would reach agreement regarding the audit timing to ensure that the scheduling of audits is coordinated and acceptable to ADRP PT recipients. This involves taking into consideration factors such as the number of other initiatives being delivered on behalf of AAFC and the coordination of other recipient audits within each jurisdiction.

#### **2.1.6 Recommendation 1**

The Assistant Deputy Minister (ADM), Programs Branch should ensure that program management works with the provinces and territories to revisit the recipient audit clause for future ADRP contribution agreements to clarify the authorities of both parties when audits are jointly or independently initiated.

##### **Management Response and Action Plan:**

Agreed. Program management will review the recipient audit clause with the provinces and ensure that the rights and responsibilities of both parties are clear when audits are jointly or independently initiated. Clarified wording will be included in future ADRP contribution agreements.

##### **Target Date:**

Clarified wording will be available for agreements signed beyond January 2013.

##### **Leads Responsible:**

ADM - Programs Branch (PB)

Director General (DG) - Business Risk Management Programs Directorate (BRMPD)

DG - Farm Income Programs Directorate (FIPD)

## **2.2 CONTRIBUTION AGREEMENT ADMINISTRATION**

2.2.1 Federal departments are responsible for ensuring that funding commitments do not exceed the available program budgets/funds. Internal audit selected a sample of 10 ADRP initiatives and found that:

- Funding commitments made were within available funding agreement (initiative) budgets;
- Orders-in-council (OIC) and TB Submissions were approved demonstrating appropriate authority and adequate funding prior to entering into contribution agreements for AgriRecovery initiatives; and
- Each initiative examined was authorized and a financial commitment under Section 32 of the FAA was made.

2.2.2 Internal audit also observed that ADRP contribution agreement funding amounts are tracked in the Departmental financial system via unique financial coding elements (i.e. Internal Order numbers).

2.2.3 Under the FAA, payments to recipients should be processed in accordance the provisions of Section 34. For the 10 initiatives selected for examination, all 21 payments reviewed were authorized appropriately under Section 34 of the FAA by individuals with valid authority. In addition, a signed OIC or contribution agreement was in place prior to the approval of all sampled payments.

2.2.4 Internal Audit confirmed that in FY 2011-12, ADRP management implemented a Section 34 checklist for use by program officers to validate key information, including receipt of required reports from the PT recipients, prior to the Program Manager authorizing payments under Section 34 of the FAA. In addition, a new electronic system is currently under development by ADRP for financial claims processing that should standardize how PTs provide information and assist program staff with financial monitoring.

## **2.3 CONTRIBUTION AGREEMENT MONITORING**

2.3.1 Ten ADRP recipient audit reports were contracted by AAFC in FY 2011-12, verifying compliance with funding agreement terms and conditions. The recipient audits were designed using a standard scope provided by SPED<sup>1</sup>. Program management indicated that they were satisfied with the scope of the completed ADRP recipient audits.

2.3.2 Action plans for the 10 recipient audits were developed and Internal Audit observed that they were reviewed by SPED and program management, including follow-up with the applicable PT and tracking of completed items.

2.3.3 In accordance with AAFC's *Recipient Audit Policy*, recipient audits to be carried out should be selected primarily on a risk basis but can also be selected at the request of program management. The Policy states that it is the responsibility of the Program Manager to ensure that risk assessments are completed on funding agreements. ADRP management had indicated through its approved RMAF/RBAF that it intended to use a risk-based approach to selecting recipient audits as part of its monitoring strategy.

2.3.4 ADRP recipient audits were selected by management in consultation with SPED, but were not formally documented using a risk assessment tool. During discussions with SPED, program management selected audits based on the materiality of funding amounts and past experience with recipients. A list of audits selected by ADRP management was included in SPED's FY 2011-12 Departmental Recipient Audit Plan. The Recipient Audit Unit in SPED carried out the ADRP audits as planned, including the contracting of independent auditors and coordination of work.

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<sup>1</sup> Formerly known at the Centre of Program Excellence (COPE)

2.3.5 Internal Audit was informed by SPED that ADRP is the only BRM Program that does not prepare formal recipient risk assessments for audit selections. At the time of the audit, a risk assessment tool for future ADRP recipient audits was being developed by BRM Finance and Administrative Services.

2.3.6 Documenting formal risk assessments using an established risk framework that illustrates risk rankings against multiple risk criteria would better substantiate the timing and extent of planned recipient audits than using the results of discussion meetings. Of the 67 departmental recipient audit reports in FY 2011-12, 10 audit reports were produced for ADRP.<sup>2</sup> Given that ADRP recipient audits have an average contracted cost of \$15.7K<sup>3</sup>, formal risk assessments would demonstrate that the selected recipient audits represented the most effective use of resources.

### **2.3.7 Recommendation 2**

The ADM, Programs Branch should ensure that program management formally documents risk assessments for all future ADRP contribution agreements.

#### **Management Response and Action Plan:**

Agreed. The AgriRecovery program has been included within the BRM Compliance Audit Framework. A formal risk assessment tool is part of this Audit Framework and has been used to evaluate the ADRP contribution agreements to be audited for 2012.

#### **Target Date:**

Completed.

#### **Leads Responsible:**

ADM – PB

DG – BRMPD

DG – FIPD

## **2.4 CONTRIBUTION AGREEMENT CLOSEOUT**

2.4.1 Agreement closeout procedures (including final reporting) should be conducted in a timely manner to ensure that agreement responsibilities of both parties have been met.

2.4.2 For the sample of 10 contribution agreements examined, holdback amounts were applied appropriately, when applicable, in accordance with their respective agreements. In 2011-2012, the ADRP modified its contribution agreement holdback

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<sup>2</sup> Completed recipient audit figures were provided by the Recipient Audit Unit and were not verified by Internal Audit.

<sup>3</sup> Total costs for completed ADRP recipient audits were provided by the Recipient Audit Unit and were not verified by Internal Audit.

provision to include 15% of the administrative portion of federal funding instead of 10% of Canada's contribution. This approach allows provincial governments to continue to make payments to producers while cash-managing administrative costs and ensures that the federal holdback has no impact on payments to producers.

2.4.3 ADRP Annual Reports for FY 2009-10 and FY 2010-11 were submitted to TBS within stipulated timelines and contained all required elements.

2.4.4 At the time of the audit file review, seven of the 10 initiative files examined contained final reports from the PT recipients. Final payments and holdbacks were not released in the three cases where final reports had not yet been received. For five of the seven files containing final reports, no correspondence relating to the timing of report receipt was on file. As a result, Internal Audit could not assess whether these reports were received within contribution agreement time requirements or confirm whether holdbacks were released only after the final reports were received.

2.4.5 The 10 files reviewed did not contain audited financial statements or references to published audited financial statements and one file contained a certified statement of expenditures. Limited submission of these financial reports by the PTs was confirmed through our review of recipient audit results. Program management informed us that, as of Fall 2012, audited financial statements, including a cash flow statement, are being requested in lieu of certified statements of expenditure and are being received from the PT recipients. Program management is currently using the cash flow statement to perform a financial reconciliation to confirm that Canada's contributions are deposited into each recipient's program account.

2.4.6 Based on the results of the file review, there is a risk that documentation to support the release of final payments and holdbacks may not be obtained, dated and placed on file, resulting in an inability to determine whether holdbacks were released at the appropriate time.

### **2.4.7 Recommendation 3**

The ADM, Programs Branch should ensure that all documentation required under the contribution agreements for future ADRP initiatives is obtained, dated and placed in program files to support the release of final payments and holdbacks.

### **Management Response and Action Plan:**

Agreed. The completed AgriRecovery recipient audits also noted that program-specific financial statements were not being submitted by recipients as required under the contribution agreements; however, AgriRecovery recipients indicated that financial statements for their organizations that included required information on AgriRecovery initiatives were available as part of the financial package submitted to other BRM program managers at AAFC. To reduce the administrative requirements for recipients, AAFC centralized the collection and analysis of financial statements for all BRM programs under the BRM

comptrollership function, created in October 2011. AgriRecovery is also developing a computerized management system to further support the program's due diligence activities, including those activities related to the release of final payments and holdbacks.

**Target Date:**

System to be implemented by May 2013.

**Leads Responsible:**

ADM – PB

DG – BRMPD

DG - FIPD

## ANNEX A: AUDIT CRITERIA

The objective of the audit was to assess the appropriateness, administration and monitoring of ADRP contribution agreements.

The main audit criteria are presented below:

1. **Section 32 FAA Certification:** Funding commitments do not exceed available program budget/funds.
2. **Appropriate Funding Agreements:** Agreements address the obligations of the parties and the terms and conditions for receiving funding under the program and comply with FAA and PTP requirements and other appropriate authorities.
3. **Section 34 FAA Certification:** Payments are processed in accordance with FAA Section 34 requirements.
4. **Recipient Audit:** Recipient audits are conducted based on an established recipient risk framework in order to ensure recipient activities are in compliance with agreement terms and conditions.
5. **Agreement Closeout:** Agreement closeout procedures (including final reporting) are conducted in a timely manner to ensure that agreement responsibilities of both parties have been met.