



Agriculture and  
Agri-Food Canada

Agriculture et  
Agroalimentaire Canada



**REPORT:**  
**Audit of Initiatives Under the**  
***Agricultural Marketing Programs Act***

AAFC Office of Audit and Evaluation

The AAFC Audit Committee recommended this audit report for approval by the Deputy Minister on March 5, 2015.

Audit of Initiatives Under the *Agricultural Marketing Programs Act*

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Catalogue No. A29-1/2-2015E-PDF  
ISBN 978-1-100-25923-9  
AAFC No. 12343E

Paru également en français sous le titre  
*Vérification des initiatives prévues par la Loi sur les programmes de commercialisation agricole*

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## **EXECUTIVE SUMMARY**

The *Agricultural Marketing Programs Act (AMPA)* established programs to facilitate and improve market opportunities for agricultural products of eligible producers through the provision of loan and price guarantees. It received royal assent in 1997 to replace the *Agricultural Products Cooperative Marketing Act*, the *Advance Payments for Crops Act* and the *Prairie Grain Advance Payments Act*. Proposed amendments to the Act are currently before Parliament.

The audit of Initiatives under the *AMPA* focused on the Advance Payment Program (APP). The APP is a financial loan guarantee program, delivered by participating producer organizations, known as Administrators, that gives producers easier access to credit through cash advances.

The APP program is managed within the Programs Branch, Business Risk Management Programs Directorate at Agriculture and Agri-Food Canada (AAFC).

The audit determined that effective controls were generally in place to support the administration, compliance and monitoring controls for the Advance Payment Program under the *Agricultural Marketing Programs Act*.

Audit recommendations were addressed to the Assistant Deputy Minister (ADM), Programs Branch for improvements in the following areas:

1. Review disclosure requirements for Administrators and ensure that associated monitoring controls are in place;
2. Consider provisions that enable AAFC to recall defaulted files to honour the guarantee and develop additional monitoring and recall actions to support this ability;
3. Review the Administrator compliance visit process;
4. Review labelling requirements to ensure the security of protected documents;
5. Ensure information systems supporting APP include the capability of capturing Settlement Agreement information and that mechanisms to provide this information are put in place; and
6. Ensure internal procedures are reviewed and updated where needed and improve internal communication among APP staff.

## 1.0 INTRODUCTION

### 1.1 BACKGROUND

- 1.1.1 The *AMPA* is a Federal Act establishing programs to facilitate and improve market opportunities for agricultural products of eligible producers through the provision of loan and price guarantees. It received royal assent in 1997 to replace the *Agricultural Products Cooperative Marketing Act*, the *Advance Payments for Crops Act* and the *Prairie Grain Advance Payments Act*.
- 1.1.2 The *AMPA* is comprised of three federally delivered programs: the Advance Payments Program (APP); the Price Pooling Program (PPP); and the Government Purchases Program (GPP).
- 1.1.3 The APP is a federal loan guarantee program that provides producers with a cash advance on the value of their agricultural products during a specified period. APP cash advances improve producers' cash flow throughout the year, enabling them to meet their short term/immediate financial obligations and benefit from the best market conditions.
- 1.1.4 At AAFC, the APP program is managed within the Programs Branch, Business Risk Management Programs Directorate. The program is administered through third-party organizations known as Administrators, who deliver the program directly to producers.
- 1.1.5 Through a tripartite agreement between the Administrator, the Lender and AAFC, Administrators obtain loans from lenders at favourable rates, and in turn provide repayable advances (loans) to producers up to a maximum of \$400,000 per producer. Under the program, AAFC pays the interest on the first \$100,000 of each advance made to producers.
- 1.1.6 The APP involves approximately 60 Administrators, with over, 20,000 participants each year. The total amount advanced was \$1.57 billion in the 2010-11 production period, \$1.89 billion in 2011-12, \$1.88 billion in 2012-13 and \$2.4 billion in 2013-14<sup>1</sup>, with an average default rate of 4% of total advanced amount for 2009-12 (of which approximately 1% is honoured by the Federal Government). Interest Benefits and Guarantee Payments Statutory Allotment under the program is \$65.9 million.
- 1.1.7 The PPP is designed to facilitate the marketing of agricultural products under a cooperative plan. Under the program, AAFC enters into price guarantee agreements with marketing agencies (associations of producers, processors,

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<sup>1</sup> From Business Risk Management One-page Reports on Payments to Producers

or selling agents) to provide a price guarantee for products sold by marketing agencies. The agreement covers the initial payment made to producers, plus costs incurred by the agencies to market the product. The price guarantee is set at no more than 65% of the expected average wholesale price of the product as outlined in the price guarantee agreements.

- 1.1.8 The PPP involves approximately 3 marketing agencies per year representing on average 1,200 producers. No claim has been made against this program since 1997.
- 1.1.9 The third program, the GPP, provides the Minister of AAFC with the authority to purchase and sell agricultural and agri-food products. The GPP authority would be used during extremely unusual market conditions where, by intervening in the market, the Minister would be able to influence some degree of market stability. Since the enactment of the *AMPA*, the Minister has not used the authority granted under the GPP and, therefore, it is not a program that is offered to the agriculture and agri-food sector on an ongoing basis.
- 1.1.10 The *AMPA*, is governed by legislation to be reviewed every five years, with the last review performed in 2011. As part of the review, AAFC conducted consultation sessions with the industry across the country, leading up to a report to Parliament on the operations of the Act in 2012. In order to improve and simplify the APP, Bill C-18 was drafted and is currently being considered within the Parliamentary legislative process. AAFC is planning to implement *AMPA* amendments as quickly as possible once Royal Assent is obtained.
- 1.1.11 A program evaluation was also performed by AAFC-Evaluation Services in 2011 and examined the administrative efficiency of the APP and the PPP from 2006-07 to 2010-11. Management Response and Action Plans have been implemented to address the findings from this evaluation. Another program evaluation was recently launched in November 2014.
- 1.1.12 The Audit of Initiatives under the *AMPA* was included in AAFC's 2014-2017 Risk-Based Audit Plan.

## **1.2 AUDIT OBJECTIVE**

- 1.2.1 The objective of the audit was to assess the effectiveness of the administration, compliance and monitoring controls for the Advance Payment Program under the *Agricultural Marketing Programs Act*.

### **1.3 AUDIT SCOPE**

- 1.3.1 The audit examined the management control framework related activities associated with the APP. The PPP and GPP programs were excluded from the scope of the audit due to relatively lower or no activities undertaken under these programs.
- 1.3.2 The examination focused on production periods 2011-12 (April 2011- September 2012), 2012-13 (April 2012- September 2013), and 2013-14 (April 2013- September 2014), with an emphasis on more recent years.

### **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 performed a risk assessment to determine the audit's objective and scope. The program evaluation of the APP program launched in November 2014 was also 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. The audit criteria are presented in Annex A of this report.
  - **Document Review:** Internal Audit assessed key program documentation to obtain an understanding of the program operations, including the key information system used by program staff and examples of reports prepared by program management.
  - **File Review:** Internal Audit selected a sample of Advance Guarantee Agreements (AGAs), interest claims by and payments made to Administrators, as well as files received from Administrators by AAFC, to honour the guarantee on loans to producers. Samples were selected for the time period of April 2012 to September 2014, with an emphasis on the most recent year in order to reflect the most recent management practices used by the Business Risk Management Programs Directorate.
  - **Data Analytics:** Internal Audit performed analysis on Administrator and producer records with a focus on the time period of April 2012 to September 2014. This included analysis on AGA and claim payment approvals, potential duplicate producers and producers in default.
  - **Interviews:** Internal Audit conducted interviews with members of APP program staff and management and representatives of the Corporate



Management Branch, who provide support in terms of management of honoured files.

1.4.3 The conduct phase of the audit took place from October to December 2014.

## **1.5 CONCLUSION**

1.5.1 The audit determined that effective controls were generally in place to support the administration, compliance and monitoring controls for the Advance Payment Program under the *Agricultural Marketing Programs Act*.

1.5.2 Recommendations were made for improvements in the following areas.

- Disclosure requirements for Administrators and associated monitoring controls;
- AAFC's ability to recall defaulted files to honour guarantees, as well as additional monitoring and recall actions;
- Administrator compliance visit process;
- Labelling requirements related to the security of protected documents;
- APP Information systems' ability to capture Settlement Agreement information, as well as mechanisms for Administrators to provide this information; and
- Updating of internal procedures where needed and improving internal communication among APP staff.

## **1.6 STATEMENT OF CONFORMANCE**

1.6.1 In the professional opinion 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 to 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 MONITORING AND REPORTING**

2.1.1 APP staff interacted with Administrators throughout the production year covering different cycles, ranging from annual Administrator application process, to monthly claim payments or defaulted files received for payment of the guarantee. Since production years span 18 months or more, these communications may involve more than one production year at a time. The foundation of the working relationship is defined by the *AMPA* legislation, *AMPA* directives, the tripartite AGA, along with annual Administrator guidelines.

2.1.2 The APP information system also enabled ongoing monitoring and reporting between Administrators across the country and APP program staff.

2.1.3 APP staff generated weekly one-page reports from the APP information system, which included key program metrics, such as Total Advanced, Number of Producers, Interest Costs and Default Costs. The audit reconciled APP information system data with a weekly one page report, dated October 2, 2014.

2.1.4 The audit reviewed the alignment between *AMPA* legislation and directives with the AGA's and Administrator Guidelines and determined these documents were consistent with each other.

2.1.5 The audit reviewed APP Application and Repayment agreements of three Administrators (posted on their respective websites), which represented approximately 60% of the advances in 2013-14, to assess conformance with APP Administrator Guidelines. Within this sample, one Administrator did not adhere to disclosure requirements with respect to the interest charges on advances and the amount of holdbacks from advances to producers. Administrators' adherence with program disclosure requirements would help ensure that program interest charges applied to producer accounts are transparent.

**2.1.6 Recommendation 1: The ADM, Programs Branch should review the disclosure requirements for Administrators and ensure that associated monitoring controls are in place.**

*Management Response and Action Plan:*

Agreed. PB will review the disclosure guidelines; make necessary adjustments to the program guidelines; and implement monitoring controls to ensure compliance.

*Leads Responsible:* ADM, Programs Branch and

DG, BRM Programs Directorate

*Target Date for Completion:* November 2016

## **2.2 MANAGEMENT CONTROLS**

- 2.2.1 A formal risk management process was implemented within the program to assess Administrator eligibility on an annual basis. The audit examined Administrators' risk assessment data for 2013-14, reviewed a sample of 24 Administrator files (40%) for 2013-14, and determined that risk assessments had been completed and approved within the APP information system.
- 2.2.2 Program Administrators were assessed for eligibility in accordance with the program's Terms and Conditions. The audit reviewed a sample of 24 (40%) Administrator files for 2013-14 and determined that program Administrators were assessed as part of their annual application process.
- 2.2.3 The audit reviewed AGA approval data for 2013-15, and examined 12 agreement approvals, representing approximately 20% of approvals processed for 2014-15<sup>2</sup>. The review determined that an effective process is in place to ensure review and approval of agreements by persons with delegated authority.
- 2.2.4 Claims were verified and certified for payment in accordance with Financial Administration Act (FAA) Section 34 requirements. The audit reviewed a sample of 24 claims for payment (5 claims related to requests to honour loan guarantees, representing approximately 60% of the total amount of all such requests approved for the 2013-14 production year, and 19 monthly interest

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<sup>2</sup> At the time of the audit conduct.

claims, representing approximately 18% of the total amount of monthly interest claims for the period April, 2013 to October, 2014)<sup>3</sup>.

- 2.2.5 The audit also reviewed the payment process related to the sample of 24 claims referred to in paragraph 2.2.4 and determined that the payments were processed in accordance with FAA Section 33 requirements and AAFC policy and procedures.
- 2.2.6 A review of APP default management indicated there is a process in place for Administrators to send defaulted files to AAFC for payment of the guarantee. As per APP Guidelines, Administrators have up to nine months after the end of the production period to enter into a Settlement Agreement with a defaulted producer. A Settlement Agreement represents an acknowledgement of the debt by the producer, sets out the terms for repayment of the defaulted amount (principal and penalty interest) and can be negotiated for up to three years in length. However, the audit noted a limitation in the application of *AMPA* for APP in that the referral of a file in default to AAFC to honour the loan guarantee, is solely at the discretion of the Administrator, and there is no set time period, or threshold by which Administrators must send defaulted files to AAFC for recovery. This increases the risk that AAFC may incur higher interest costs in cases where Administrator collection efforts are unsuccessful and the default files are not referred to AAFC in a timely manner, and the risk of non-collection of amounts owed. The audit team also noted that amendments to the *AMPA* were included in Bill C-18, tabled for Royal Assent at the time of the audit, that would give the Minister the authority to recall files and honour the guarantee if the default has been outstanding for a period of time, as specified in the AGA.
- 2.2.7 **Recommendation 2: With the Royal Assent of Bill C-18 on February 25, 2015, the ADM, Programs Branch should revise the Advance Guarantee Agreements and implement additional monitoring and recall actions; to support the new ability to recall files and honour the guarantee for cases when defaulted files are not referred to AAFC in a timely manner.**

*Management Response and Action Plan:*

Agreed. Once Bill C-18 receives Royal Assent, PB will amend the 2015 Program Guidelines and Advance Guarantee Agreements (AGAs) with Administrators to reflect this new capacity including the criteria under which files will be recalled; and actions Administrators must take in pursuing repayment of defaulted files. These rules cannot be enforced on defaults for years prior to the 2015 program year, as these AGAs were established under *AMPA* legislation that did not allow for recall action.

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<sup>3</sup> Based on information in the APP Information Management System, as of December 5, 2014.

*Leads Responsible:* ADM, Programs Branch and

DG, BRM Programs Directorate

*Target Date for Completion:* May 2015

2.2.8 The audit reviewed the Administrator compliance visit process and examined a sample of three compliance visits from 2012-2013. The audit noted that in addition to compliance visits, recipient audits are undertaken using an annual risk-based approach. The audit determined that Administrator compliance visits were selected based on APP program management discussions and Administrator Risk Assessments that were performed as part of the annual Administrator application process. For the Administrator compliance visits examined, checklists and reports were completed and tracking of management action plans was performed. However, opportunities for improvement within the Administrator compliance visit process were identified in the following areas:

- Documenting the rationale for compliance visits and adopting a risk-based approach to guide the scope of individual Administrator compliance visits; and,
- Consolidating and communicating the findings/lessons learned on a periodic basis to APP program staff.

**2.2.9 Recommendation 3: The ADM, Programs Branch should review the Administrator compliance visit process in terms of:**

- **Adopting and documenting a more focused and risk-based approach to guide file review activities undertaken;**
- **Consolidating compliance visit findings from across the country, to identify common themes, or patterns to better inform program management activities; and**
- **Consider desk reviews as a means of enhancing the risk based approach to compliance visits.**

*Management Response and Action Plan:*

Agreed. PB will review the compliance visit process and develop a more formal, risk-based assessment process based on the Annual Risk Assessments that are currently conducted each year and desk reviews to identify and guide compliance visits. PB will develop and implement a summary report process to document and share the results of compliance visits with APP program managers to identify common issues and develop consistent responses across Administrators.

*Leads Responsible:* ADM, Programs Branch and

DG, BRM Programs Directorate

*Target Date for Completion:* June 2015

2.2.10 The audit reviewed a sampling of 13 producer default files, received by AAFC to honour the guarantees, in terms of classification and handling of sensitive information. The audit did not observe any breaches in the handling of sensitive information. However, within the sample reviewed, 10 files did not accurately identify Protected A and B information, in conformance with AAFC's Directive on Departmental Security.

**2.2.11 Recommendation 4: The ADM, Programs Branch should review the labelling requirements to ensure the security of information is adequately protected as per departmental guidelines.**

*Management Response and Action Plan:*

Agreed. PB will work with Security Services to undertake a review of labelling requirements for APP documentation and establish procedures to ensure that documents are labelled appropriately according to departmental guidelines.

*Leads Responsible:* ADM, Programs Branch and

DG, BRM Programs Directorate

*Target Date for Completion:* June 2015

## 2.3 INFORMATION SYSTEMS

- 2.3.1 The audit examined the APP information system data sets for 2013-14 and determined that the producer advance limits of \$100K interest free and a \$400,000 maximum were being followed.
- 2.3.2 The APP information system used a set of attribution rules to ensure that producers were not being duplicated within the system when applying for advances with more than one Administrator due to their coverage of different commodities. The audit team examined APP information data sets for 2013-14 and observed that producers were accurately identified and matched with their identification reference number during the application process.
- 2.3.3 The audit also examined the information collected within the APP system in relation to the 2014-15 Administrator guidelines. It was noted that the APP information system underwent several upgrades in recent years, which reflected continuous improvement in the interface and reporting capabilities of this information system. However, the audit observed that Settlement Agreement information had not been regularly collected and maintained within the APP information system.
- 2.3.4 **Recommendation 5: The ADM, Programs Branch should ensure the information systems supporting the APP include the capability of capturing Settlement Agreement information and that mechanisms are put in place to ensure that Administrators provide this information in a timely manner.**

### *Management Response and Action Plan:*

Agreed. While the capacity to capture Settlement Agreements exists, there is a need to strengthen the requirement for Administrators to report on Settlement Agreements on a timely basis to support the ability to recall defaulted files once it is in place.

Adjustments will be made to AGAs that will require Administrators to report Settlement Agreements in a timely manner and monitoring of collection activities will be improved to support the recall of defaulted files.

*Leads Responsible:* ADM, Programs Branch and

DG, BRM Programs Directorate

*Target Date for Completion:* April 2015

- 2.3.5 The audit reviewed the default management process and observed that information systems supported consistent and effective management of honoured files once Administrators submitted claims for guarantees and files were transferred from Programs Branch - Business Risk Management Directorate to the Corporate Management Branch.
- 2.3.6 The APP program provided regular revisions to the external APP Administrator Guidelines, as well as for APP information system bulletins and external training. However, interviews and/or documentation review indicated that internal APP Desktop Procedures had not been updated for several years and communication between APP-East and APP-West operational staff was limited. As a result, there is a risk of inconsistent practices in the management of Administrators, and limited sharing of beneficial program management practices.
- 2.3.7 **Recommendation 6: The ADM, Programs Branch should ensure that internal Desktop Procedures are reviewed and updated where needed, and improve internal communication among APP staff.**

*Management Response and Action Plan:*

Agreed. PB will update Desktop Procedures and will establish monthly East-West Program staff meetings

*Leads Responsible:* ADM, Programs Branch and

DG, BRM Programs Directorate

*Target Date for Completion:* July 2015



## **ANNEX A: AUDIT CRITERIA**

1. Effective monitoring and reporting is in place for the Advance Payment Program.
2. Appropriate management controls are in place to oversee the Advance Payment Program.
3. Information systems support complete and accurate information for the administration and monitoring of the Advance Payment Program.

## **ANNEX B: ACRONYMS**

AAFC	Agriculture and Agri-Food Canada
ADM	Assistant Deputy Minister
AGA	Advance Guarantee Agreement
<i>AMPA</i>	<i>Agricultural Marketing Programs Act</i>
APP	Advance Payments Program
DG	Director General
FAA	Financial Administration Act
GPP	Government Purchases Program
PB	Programs Branch
PPP	Price Pooling Program