Audit of the AgriMarketing Program – Assurance Systems Stream

October 18, 2017

The AAFC Audit Committee recommended this audit report / evaluation report for approval by the Deputy Minister on November 30, 2016.

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EXECUTIVE SUMMARY

The AgriMarketing Program is a five-year, $341 million program comprised of a combination of government initiatives and contribution funding for industry-led projects. The AgriMarketing Program supports the agricultural sector by creating and maintaining access to markets and taking advantage of market opportunities.

Assurance Systems is one of four streams within the AgriMarketing program. This stream helps enhance the competitiveness of the agriculture industry by meeting buyer and market demands for assurance. It provides funding to projects that will lead to processes and procedures that increase consumers' and buyers' confidence that industry is addressing food supply chain risks and that will increase the industry's ability to prove assurance claims.

When this stream was initiated, it was allocated $105.5 million over the five-year period 2013-18. Of this amount, $34.1 million was budgeted for operational funding and $71.4 million was allocated to contributions.

The Audit of the AgriMarketing Program – Assurance System Stream was included in the 2016-2019 Risk-Based Audit Plan. The objective of the audit was to provide assurance on the adequacy and effectiveness of the management control framework in place to support the delivery of the program.

The audit concluded that an adequate and effective management control framework is in place to support the delivery of the AgriMarketing program – Assurance Systems stream.

In particular, the following strong practices were noted:

- There is an established application assessment process;
- Claim verification and approval processes were accurately followed; and
- Performance information is collected and reported to management as required.

The following opportunities were identified to improve the management control framework:

- Reviewing and strengthening the program monitoring and reporting processes by including quantitative project information in program-level risk assessments and developing aggregate project reports;
- Reviewing documentation requirements for the eligibility assessment of applications to strengthen the decision-making process;
- Reviewing the DG Review Committee's Terms of Reference to ensure information and quorum requirements are appropriate for program needs; and
- Reviewing documentation requirements for the project risk assessment, program monitoring activities and the assessment of the recipient / project performance.

1.0   INTRODUCTION

1.1   BACKGROUND ON THE AGRIMARKETING PROGRAM - ASSURANCE SYSTEMS STREAM

1.1.1   The AgriMarketing Program is a five-year, $341 million program comprised of a combination of government initiatives and contribution funding for industry-led projects. The AgriMarketing program supports the agriculture sector by creating and maintaining access to markets and taking advantage of market opportunities. There are four streams: Market Development; Assurance Systems; Breaking Down Trade Barriers; and, Building Market Success. Two of these streams, Market Development and Assurance Systems, provide contribution funding that support industry-led projects.

1.1.2   The objective of the Assurance Systems stream (referred to as "the program" in this audit report) is to support the agriculture sector's development of complementary assurance systems, standards and tools to:
- Respond to consumer, buyer and market demands for assurance of food safety and other attributes which may represent new market opportunities;
- Protect against threats to plant and animal (including human) health; and
- Strengthen the sector's capacity to make credible, meaningful and verifiable assurance claims.

1.1.3   The program provides funding to projects that will lead to processes and procedures that increase consumers' and buyers' confidence that industry is addressing food supply chain risks and that will increase the industry's ability to prove assurance claims, such as: that food is safe, it is sourced from a healthy resource base and it incorporates the attributes that consumers seek and for which they pay. The program is divided into four components:

1. **Food Safety Systems:** Focus on industry-led development and completion of producer/enterprise manuals, training of auditors/trainers and the management system.
2. **Surveillance Systems**: Focus on industry-led activities and tools to support the development of a national disease surveillance system for all farmed animals and/or cultivated plants.
3. **Market Attribute/Quality Standards**: Focus on industry-led development of market-relevant attributes or product standards and of the tools to help demonstrate that industry is adhering to the standards.
4. **Traceability Systems**: Focus on development and implementation of an industry-led system that can track and trace a plant, animal or product to support claims of market attributes or for the purposes of emergency management in the plant or animal sector.

1.1.4 The program was allocated $105.5 million over a five year period beginning in 2013-14. Of this amount, $34.1 million was budgeted for operational funding and $71.4 million was allocated to contributions. As of June 30, 2016, contribution funding by program component has been as follows:

Figure 1: Distribution of Funding by Program Component
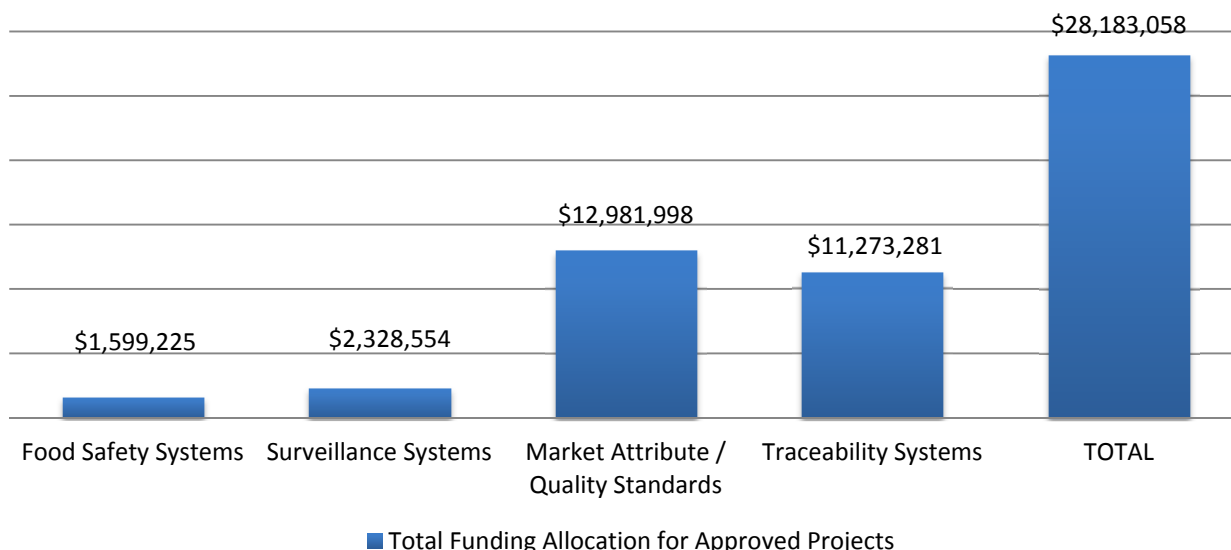
1.1.5 As noted in the Terms and Conditions and the Applicant Guide, project funding does not typically exceed $1 million. Eligibility costs related to a project are to be shared between Agriculture and Agri-Food Canada (AAFC) and the successful applicant, with the latter responsible to cover at least 25% of eligible project costs. The applicant's portion can be made up of their own funds and funding from other stakeholders, including other levels of government.

1.2   ORGANIZATION AND GOVERNANCE

1.2.1 The Business Development and Competitiveness Directorate within AAFC's Programs Branch is responsible for the delivery of the program.

1.2.2 The work of the Directorate is supported by:

- **Service and Program Excellence Directorate (SPED)**: Serves as the focal point for the stewardship and coordination of service transformation and grant and contribution programming modernization within Programs Branch. SPED leads the creation of branch-wide tools and guidance used in contribution program administration.

- **Market and Industry Services Branch, Strategic Policy Branch, Science and Technology Branch, Canadian Food Inspection Agency (CFIA) and Provinces:** Provide technical expertise as part of the assessment of a proposed application to support the program's evaluation of technical and market eligibility criteria (referred to as "subject matter experts" in the audit report).
- **Directors General (DG) Project Review Committee:** Chaired by the DG, Business Development and Competitiveness Directorate, and composed of DG-level membership from within AAFC and the CFIA. The role of the committee is to review, discuss, and recommend for approval or rejection[1] applications that meet the eligibility criteria of the program.

1.3   AUDIT OBJECTIVE

1.3.1   The objective of the audit was to provide assurance on the adequacy and effectiveness of the controls in place to support the management and delivery of the AgriMarketing program – Assurance Systems stream.

1.4   AUDIT SCOPE

1.4.1   Based on the results of the risk assessment and interviews with program management during the planning phase, several activities were scoped out based on one of the following: inclusion of the activities in the ongoing evaluation of the program, past and upcoming internal audit engagements, or due to a low risk rating. The audit focused on medium to high risks that were in place. As a result, the following three areas were assessed:

1. **Program Oversight:** Program management receive sufficient and timely recipient information for decision-making.

2. **Eligibility Assessment:** Eligible recipients are funded and decisions are documented and justified.

3. **Agreement Monitoring and Reporting:** Recipients are monitored to ensure that the Terms and Conditions of the contribution agreement are met.

1.4.2   The audit covered the period from April 1, 2013 to June 30, 2016.

1.4.3   An evaluation of the program is currently being conducted by the Office of Audit and Evaluation and is planned to be completed by March 2017. The evaluation will focus on the relevance (continued need, alignment with government priorities and federal roles

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[1] The official approval or rejection of the project is the Minister's authority. As of January 2016, the delegation of approval or rejection of the project was extended to include the Assistant Deputy Minister and the Director Generals of Programs Branch.

and responsibilities) and performance (effectiveness, efficiency and economy) of the program.
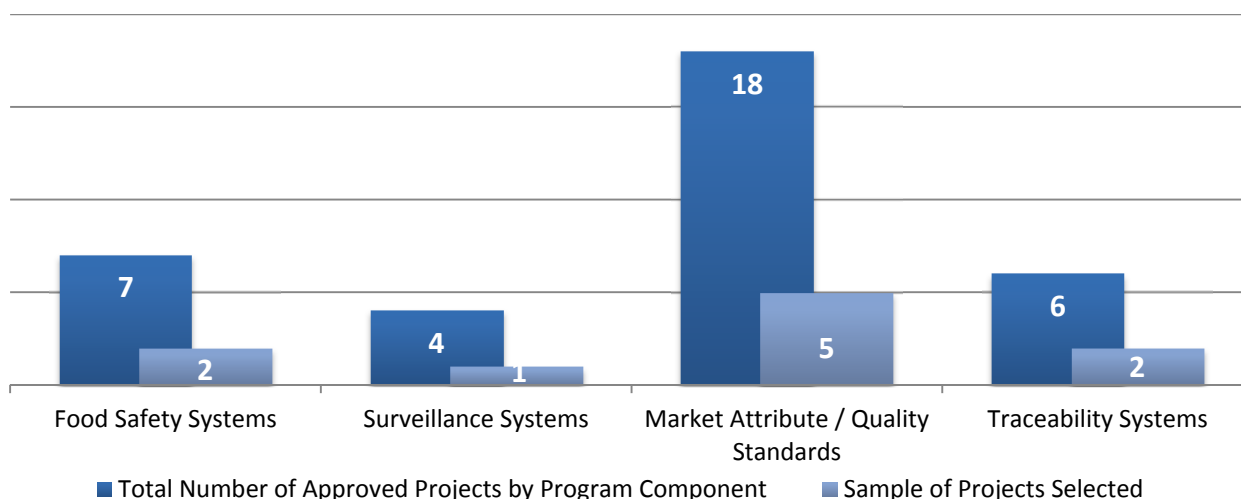
1.5   AUDIT APPROACH

1.5.1   The audit approach and methodology were risk-based and consistent with the *International Standards for the Professional Practice of Internal* Auditing and the *Internal Auditing Standards for the Government of Canada*, as required under the Treasury Board *Policy on Internal Audit*. These standards require that the audit be planned and performed so as to conclude against the objective. The audit was conducted in accordance with an audit program that defined audit tasks to be performed in the assessment of each line of enquiry.

1.5.2   The conduct phase of the audit took place from July to September 2016.

1.5.3   Audit evidence was gathered through various methods including interviews, observations, process walkthroughs, a review and analysis of application (i.e. assessment of eligibility) and project documentation (i.e. monitoring of the project), as well as related financial data.

1.5.4   The audit selected a judgmental sample of 10 projects out of a population of 35 approved projects with signed contribution agreements in the period from April 1, 2013 to June 30, 2016.

Figure 2: Sample of Projects per Program Component

	Total Number of Approved Projects by Program Component	Sample of Projects Selected
Food Safety Systems	7	2
Surveillance Systems	4	1
Market Attribute / Quality Standards	18	5
Traceability Systems	6	2

1.6   CONCLUSION

1.6.1   The audit concluded that an adequate and effective management control framework is in place to support the delivery of the AgriMarketing program – Assurance Systems stream. In particular, the following strong practices were noted:

- There is an established application assessment process;
- Claim verification and approval processes were accurately followed; and
- Performance information is collected and reported to management as required.

1.6.2   The following opportunities were identified to improve the management control framework currently in place:

- Reviewing and strengthening the program monitoring and reporting processes by including quantitative project information in program-level risk assessments and developing aggregate project reports;
- Reviewing documentation requirements for the eligibility assessment of applications to strengthen the decision-making process;
- Reviewing the DG Review Committee's Terms of Reference to ensure information and quorum requirements are appropriate for program needs; and
- Reviewing documentation requirements for the project risk assessment, program monitoring activities and the assessment of the recipient / project performance.

1.7   STATEMENT OF CONFORMANCE

1.7.1   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 of the audit, against pre-established audit criteria that were agreed on with management. The conclusion is applicable only to the entity examined.

1.7.2   This audit was conducted in accordance 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

The following sections present the key observations, based on the evidence and analysis associated with the audit, and provides recommendations for improvement. Management responses were provided and include:

- 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.

The results of the audit are organized into three sections: Program Oversight, Eligibility Assessment, and Agreement Monitoring and Reporting.

2.1 PROGRAM OVERSIGHT

2.1.1 Program oversight informs management of impediments that may impact the achievement of program objectives. Timely, accurate, and complete program information helps support program oversight and decision-making.

2.1.2 The Treasury Board (TB) *Policy on Transfer Payments* requires departments to "ensure that cost-effective oversight, internal controls, performance measurement, and reporting systems are in place to support the management of transfer payments". To assess this expectation, the audit sought to confirm that the program has processes in place to inform senior management of risk, project and performance information.

2.1.3 Program Risk Information: The program uses SPED's Program Risk Management tool to assess program level risks. The annual risk assessment is conducted based on the expectations outlined in AAFC's *Integrated Program Risk Management Directive (2012)*. The risk assessment approach considers key aspects of the program, including but not limited to: materiality, complexity, program design, program administration, and performance measurement. The outcome of the program risk assessment advises program management of potential areas that may impede the achievement of program objectives, so that these areas are appropriately managed to mitigate the likelihood of occurrence and impact.

2.1.4 The audit reviewed the program-level risk assessments for the past two fiscal years (2013-2014 and 2014-2015) and found that these risk assessments were predominantly supported by qualitative observations. Limited quantitative data was used to corroborate the risk ratings assigned. The audit noted that the program is collecting quantitative information that would be useful during the assessment of program risk, such as: service standards targets, project level risk scores, claim processing information, and project

progress information. The use of quantitative information would further support the program-level risk assessments.

2.1.5   Aggregate Project Information: SPED's Management Control Framework for non-BRM programs articulates the importance of identifying and addressing program issues. For example, the framework notes that this could be conducted by having "real-time, in-progress reporting systems in place to ensure continuity and meeting corporate reporting requirements in a timely manner."

2.1.6   Based on the expectations, the audit found that the current reporting systems, apart from service standard reporting, provided limited aggregate project information. Reporting was generally project specific (i.e. application information, project progress, budget forecasts, claim verification) and was used by program management to determine whether the applicant is eligible for funding and adhering to the Terms and Conditions of the contribution agreement.

2.1.7   There is an opportunity for the program to compile aggregate program level analysis and reports using the information already collected (i.e. project risk information, project progress, and claim information). This information would help management identify key trends, systemic issues, and/or opportunities.

2.1.8   Performance Information: The Program Performance Measurement and Risk Management Strategy (PPMRMS) is a program design document that outlines the performance measurement strategy and performance reporting requirements. It is a tool for management to receive performance information at the program level and through the continual administration of the contribution agreements.

2.1.9   The audit found that the program complied with the reporting commitments noted in the PPMRMS. Program management receives aggregate performance information annually and project specific performance information once the project is completed.

Recommendation 1 – Program Level Reporting

The Assistant Deputy Minister of Programs Branch should review and strengthen the systems in place to support program level reporting, in particular:
  a) Quantitative program information should be incorporated into program-level risk assessments to help inform the identification of issues and decision-making; including action plans to mitigate identified risks, as appropriate.
  b) Aggregate project reports should be developed to support decision-making.

Management Response and Action Plan

Management Response and Action Plan: Agreed. Programs Branch acknowledges the

benefits of robust processes and systems that provide aggregate quantitative information to support program and project decision-making system project information as a basis for decision-making.

   a) The Assurance Systems Stream will review existing program-level risk assessment processes against Service and Program Excellence Directorate's Program Risk Management Control Framework for Non-BRM programs requirements and make the necessary adjustments to ensure quantitative program information is incorporated into program-level risk assessments where information is available and where appropriate.

   b) The Assurance Systems Stream, in consultation with the Directorate's Program Design and Performance Division and other Branch Directorates, will define business requirements for a more robust process and electronic/computer-based system for collecting, monitoring and reporting individual and aggregate assurance projects. A process and electronic/computer-based system will be implemented once the business requirements are approved and adopted by the Branch.

Lead Responsible: ADM, Programs Branch

Target Date for Completion: Part a) June 2017
                                                Part b) December 2017

2.2   ELIGIBILITY ASSESSMENT

2.2.1   The program assesses applications to determine whether they meet the eligibility requirements articulated in the Terms and Conditions of the program and the Applicant Guide. This assessment provides the foundation for decision makers to accept or reject a proposed application and ensures that funding is allocated to projects that support the achievement of the program outcomes and objectives.

2.2.2   The TB *Policy on Information Management* as related to the TB *Policy on Transfer Payments* requires that "decisions and decision-making processes are documented to account for and support the continuity of departmental operations, permit the reconstruction of the evolution of policies and programs, and allow for independent evaluation, audit and review." Based on this expectation, the audit sought to confirm that the activities undertaken by the program to assess applications were documented in the project files and reviewed by management.

2.2.3   The program's application assessment process is documented in a formal procedures manual and is supported by SPED guidance material. This process consists of three phases:
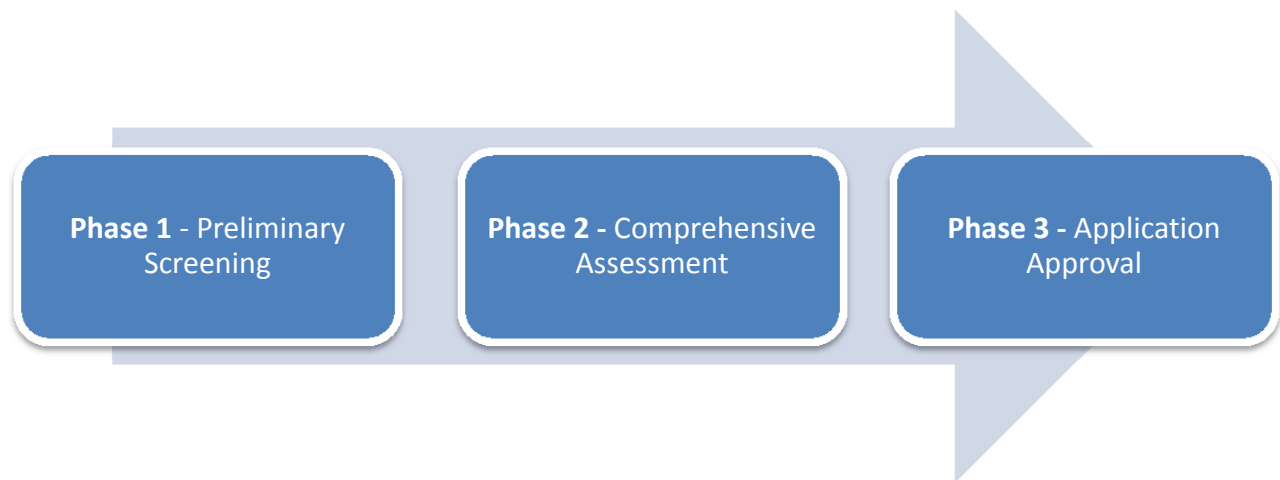
2.2.4   Phase 1 - Preliminary screening: The program assesses an application to determine whether it meets the basic eligibility requirements. This provides an early signal to the recipient on whether the application would be considered for funding. The program uses a preliminary screening application form (developed by SPED) to make a determination of whether the application is complete and eligible.

2.2.5   In 10 sampled application files, the preliminary screening application form was used 90% (9 out of 10) of the time. However, the audit found limited rationale documented on the forms to support the assessments made by program officers.

2.2.6   In addition, the project screening application form was signed-off by program management 67% (6 out of 9) of the time. Interviews with program officers and management indicated that this formal review of the form is often supplemented by informal meetings.

2.2.7   Phase 2 - Comprehensive assessment: Once the applicant has met the basic eligibility requirements, a thorough assessment of the application against the eligibility requirements within the Terms and Conditions and the Application Guide is conducted. This assessment includes, but is not limited to, reviewing the project activities, the applicant's capabilities, and the application's merit. This phase also involves consulting subject matter experts on areas of market need and strategic importance. The results of this assessment are summarized in the Project Recommendation Form. This form is used by program management to recommend the approval or rejection of an application.

2.2.8   In 10 sampled application files, the audit found that neither the application file, nor the Project Recommendation Form, had sufficiently documented the assessment to support the decision made by the program. Specifically:

- 100% (10 out of 10) of application files did not contain the program assessment on whether the application will affect the sector, and if the proposed activities and costs were eligible and reasonable to meet the program objectives;

- 80% (8 out of 10) of application files did not contain the program's assessment on the applicant's capacity to complete the proposed project and whether the application activities support the program objectives; and

- 50% (5 out of 10) of application files did not contain the program's assessment on whether the proposed project can demonstrate a current or potential market opportunity and whether the project fits within the department's current priorities.

2.2.9 Interviews with program officers and management indicated that, although the assessment was not completely documented in the application file, the due diligence was completed and summarized in the Project Recommendation Form.

2.2.10 SPED's guidance on the use of the form requires that the program document whether the project has met all essential assessment criteria, to identify any concerns, and to state whether the application is recommended for approval or rejection. The audit found that the form would have benefited from additional information on the assessment process and whether the project met all essential eligibility criteria. As a result, the information being relayed to decision makers via the form may not provide sufficient information to facilitate a thorough discussion and recommendation.

2.2.11 The audit noted limited evidence on file demonstrating that program management challenged and reviewed the Project Recommendation Form. Discussions with program management and officers confirmed that, once the form is drafted, informal meetings were held between the Program Manager, Director, and Director General to challenge and review application information. The audit noted there is an opportunity to formally document this review (i.e. through signature, notes from management, and/or correspondence) to further strengthen the assessments made by the program.

2.2.12 Documenting the eligibility assessment of an application is a core component of a transfer payment program as it demonstrates sound stewardship in the use of public resources. Recording how and why a decision is made ensures decision-makers are aware of the sufficiency and/or limitations of the assessment.

Recommendation 2 – Documentation of Eligibility Assessments
The Assistant Deputy Minister of Programs Branch should review documentation requirements for the eligibility assessment of applications to strengthen the decision-making process.
Management Response and Action Plan
Management Response and Action Plan: Agreed. Programs Branch recognizes the

importance of documenting decision-making related to project applications and assessments.

Programs Branch will undertake a review of documentation requirements and identify and implement improvements that would help to strengthen the assessment and decision-making process.

Lead Responsible: ADM, Programs Branch

Target Date for Completion: June 2017

2.2.13 Phase 3 – Application Approval: Once the Project Recommendation Form is finalized, the program presents the proposed application at the DG Project Review Committee for discussion and decision. The committee is composed of DG level members from across AAFC and CFIA as appropriate. These members played an important role in ensuring that recommended applications support the achievement of program objectives and outcomes.

2.2.14 In the application files sampled, the audit found that the decision made by the DG Project Review Committee to recommend approval or rejection was documented. Terms of Reference specified that three AAFC DG Members are required for decision. However, the audit noted that quorum was not realized 57% of the time (13 out of 23 meetings) as the required members did not regularly attend meetings. In addition, the audit found that information needs for the committee were not clearly articulated in the Terms of Reference. Clarifying quorum and information requirements would further strengthen the discussions that occur.

Recommendation 3 – Terms of Reference for DG Review Committee

The Assistant Deputy Minister of Programs Branch should review the Director General Project Review Committee's Terms of Reference to ensure that information and quorum requirements are appropriate for program needs.

Management Response and Action Plan

Management Response and Action Plan: Agreed. The Assurance Systems Stream will review the Terms of Reference and propose modifications to the DG Review Committee to ensure that information and quorum requirements are appropriate for program needs; and, that they are clearly documented.

Lead Responsible: ADM, Programs Branch

Target Date for Completion: January 2017

2.3   AGREEMENT MONITORING AND REPORTING

2.3.1   Once the application is approved by the appropriate delegate and a contribution agreement is awarded, the program is required to monitor the project. These monitoring activities help ensure: proper administration of public funds; compliance with contribution agreements; projects remain aligned with performance targets; and provide early warning to the program of issues that could impact the success of the project.

2.3.2   The TB *Policy on Transfer Payments* requires that "administrative requirements on applicants and recipients, which are required to ensure effective control, transparency and accountability, are proportionate to the level of risks specific to the program, the materiality of funding, and to the risk profile of applicants and recipients". Based on this expectation, the audit sought to confirm that the program had assessed project risks and developed a monitoring strategy to mitigate these risks.

2.3.3 Recipient / Project Risk Assessments: Each approved application is risk assessed using AAFC's Recipient / Project Risk Management Framework (RPRMF). The result of the assessment generates a monitoring strategy for the program to implement.

2.3.4   In 10 sampled approved projects, the audit found that projects were risk assessed annually using the RPRMF and that the monitoring strategies were generated. The audit noted that there is an opportunity for the program to improve the support used during the assessment of recipient and project risk to include information that is gathered during the administration of the project, such as: site visits, financial statements, board meeting minutes, organizational structure, recipient policies and procedures, as well as internal process documentation.

2.3.5   In the absence of sufficient recipient / project information, the RPRMF requires programs to assign a medium rating for a specific risk category. The audit found that this expectation was not applied for the 10 sampled projects. In particular, two risk categories (i.e. management control framework and financial management) had insufficient information on file; however their risk ratings were assessed as low or medium low. As a result, the monitoring strategy that the program implemented may not identify project risks and/or issues that may impede the achievement of the project objectives in a timely basis.

2.3.6 Project Monitoring: The project monitoring strategy outlines the mitigating measures that the program puts in place to ensure that projects successfully meet their stated objective. The monitoring strategy sets out a number of requirements, such as: the amount of holdback, frequency and type of monitoring, the percentage of invoices that

should be sampled during the claim verification, the frequency of project progress and financial reporting.

2.3.7 In the sample of 10 approved projects, the audit found that monitoring strategies conformed to the risk rating assigned and that this strategy was signed-off by program management. The monitoring strategy requirements were applied as follows:

- 90% (9 out of 10) of sampled approved project files had work plan progress reports as required; and
- 100% (10 out of 10) of sampled approved project files following the sampling requirements for claim verification as required.

2.3.8 The audit found that 100% (10 out of 10) of sampled approved projects files had limited documentation on file to demonstrate the monitoring activities conducted (i.e. recipient contact and site visits). Ensuring monitoring activities are documented would support program management to ensure that project key risks are appropriately mitigated.

2.3.9 **Recipient / Project Performance:** In addition to the sample of 10 approved project files, the audit sampled 4 out of 9 (44%) completed projects to determine whether final performance reports were reviewed by management and whether projects were assessed based on the expectations within the contribution agreement. The audit found that 100% (4 out of 4) completed projects had performance reports that were signed off by appropriate delegates. The audit also observed that there was no documented analysis on file to indicate whether the projects successfully met the stated objectives. Without this analysis, the program's ability to assess its performance may be limited.

Recommendation 4 – Recipient /Project Monitoring and Performance Assessment
The Assistant Deputy Minister of Programs Branch should review documentation requirements for the project risk assessment, program monitoring activities and the assessment of the recipient / project performance to strengthen agreement monitoring and reporting.
Management Response and Action Plan
Management Response and Action Plan: Agreed. The Assurance Systems Stream, in consultation with the Directorate's Program Design and Reporting Division, will conduct a business process review of existing tools and processes related to project risk assessment, program monitoring activities and the assessment of recipient project performance against AAFC's Recipient / Project Risk Management Framework (RPRMF). The findings of this review will form the basis for recommendations and actions to strengthen agreement monitoring and reporting.

In the interim, Assurance Systems Stream will formally communicate the expectations to program officers for documenting project risk assessments, program monitoring activities, and the assessment of recipient / project performance.

Lead(s) Responsible: ADM, Programs Branch

Target Date for Completion: June 2017

ANNEX A: AUDIT CRITERIA

1. PROGRAM MANAGEMENT RECEIVE SUFFICIENT AND TIMELY RECIPIENT INFORMATION FOR DECISION MAKING.

- Performance processes are in place to communicate recipient performance information to key decision makers.
- Summarized information on the results / progress of recipient projects are provided to management in a timely, accurate, complete and useful manner.
- A formal risk management process is implemented within the program.
- Service standards are communicated to program management on a regular basis.

2. RECIPIENT ELIGIBILITY IS ASSESSED AND APPROPRIATELY DOCUMENTED

- Recipients are assessed for eligibility using established criteria which are based on the program's Terms and Conditions.
- Controls are in place to support fair, transparent and free of bias decisions.

3. RECIPIENTS COMPLY WITH THE TERMS AND CONDITIONS OF THE PROGRAM.

- Funding agreements are aligned with recipient and initiative risk.
- Recipient compliance to the program Terms and Conditions and the funding agreement is monitored and issues are addressed when indicated.
- Payments made to recipients accurately reflect funding agreements.

ANNEX B: ACRONYMS

AAFC	Agriculture and Agri-Food Canada
CFIA	Canadian Food Inspection Agency
DG	Director General
PPMRMS	Program Performance Measurement and Risk Management Strategy
RPRMF	Recipient/Project Risk Management Framework
SPED	Service and Program Excellence Directorate
TB	Treasury Board