Agriculture and Food

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Agriculture and Food

Executive summary

Several matters reported in this chapter pertain to financial reporting. Timely and accurate financial reporting is essential. Late and incorrect financial statements increase the risk that Members of the Legislative Assembly (MLAs) and the public will form incorrect conclusions about an organization's financial performance. Also, they increase the risk that MLAs and the public will make incorrect decisions.

The Department published incorrect financial statements for the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In our opinion, transfers to these Funds are not being accounted for properly. The Canadian Institute of Chartered Accountants has begun a project to address the differences that have arisen in the interpretation and application of accounting standards concerning government transfer payments. Clarification of these standards will help to address the matters we raise in this chapter.

The Department has not submitted the Saskatchewan Agricultural Stabilization Fund's 2001 annual report and audited financial statements to the Legislative Assembly, as required by law. In addition, Saskatchewan Crop Insurance Corporation was six months late in making its 2000 Annual Report public.

We also report that the Livestock Services Revolving Fund needs to prepare accurate quarterly and annual financial statements and submit them to Treasury Board. The Prairie Agricultural Machinery Institute needs to improve controls over its bank account. The Pastures Revolving Fund needs procedures to ensure that its staff are aware of all revenues the Fund is required to collect. It also incurred a loss resulting from the actions of its employees.

We followed up on a 1999 audit of Saskatchewan Crop Insurance Corporation's claims adjusting system. We note additional steps that the corporation should take to improve the system.

Introduction

The Department of Agriculture and Food's mandate is to add value to agriculture by fostering a commercially viable, self-sufficient and sustainable Saskatchewan agriculture and food industry in partnership with industry.

Financial overview

The following table sets out the Government's total expenditures and revenues for the agricultural programs it administers through the Department and other organizations that the Government owns or controls. This information is reflected in the Government's summary financial statements for the year ended March 31, 2001.

	2001	2000
	(in millions of dollars)	
Agricultural expenditures by program:		
Crop insurance	$ 169	$ 157
Farm Land Education Tax Rebate Program	25	---
Compensation for freight rate changes	---	260
Agricultural Income Disaster Assistance (AIDA)	---	105
Farm income stability (NISA*)	47	62
Other	81	109
	$ 322	$ 693
Agricultural revenues by source:		
Federal Government	$ 108	$ 288
Producers' crop insurance premiums	54	71
Interest on loans and investments	19	29
Sales, services, fees and permits	30	30
	$ 211	$ 418

* Net Income Stabilization Account

Information about the Department's revenues and expenditures is reported in the Department's 2000-2001 Annual Report. Revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the Public Accounts compendium, except for agencies under the Agricultural and Food Products Development and Marketing Council, which are reported in the Council's annual report.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies:

	Year End
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Equity Fund	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Horned Cattle Fund	March 31
Livestock Services Revolving Fund	March 31
Milk Control Board	December 31
Pastures Revolving Fund	March 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Crop Insurance Corporation	March 31
Crop Reinsurance Fund of Saskatchewan	March 31

Crown Agencies under the Agricultural and Food Products Development and Marketing Council

Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
- Canodev Research Inc.	July 31
Chicken Farmers of Saskatchewan	December 31
Saskatchewan Egg Producers	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Turkey Producers' Marketing Board	December 31
Sask Pork*	December 31

* In 2001, Sask Pork changed its year end to July 31

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for:

- the special purpose funds and Crown agencies for the fiscal years ending between April 1, 2000 and March 31, 2001, except for the following. Our audit of Agri-Food Equity Fund is not complete due to established priorities. We will report the results of this audit in a future report. We reported on Milk Control Board and Sask Pork in our 2001 Spring Report.

Our Office worked with the following appointed auditors:

- KPMG
  - Saskatchewan Agricultural Stabilization Fund
  - Saskatchewan Crop Insurance Corporation
  - Crop Reinsurance Fund of Saskatchewan

- PricewaterhouseCoopers
  - Agricultural Credit Corporation of Saskatchewan

We used the framework recommended by *The Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/rrd.html). Our Office and the appointed auditors formed the following opinions.

In our opinion, for the audits we have completed:

- **the financial statements of the Department's special purpose funds and Crown agencies are reliable except for the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In KPMG's opinion, the financial statements of the Saskatchewan Agricultural Stabilization Fund are reliable.**

- **the Department and its special purpose funds and Crown agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this chapter.**

- **the Department and its special purpose funds and Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.**

Importance of financial statements

Several matters reported in this chapter pertain to financial reporting. Good financial reporting is essential for the following reasons.

The Government faces increasing demands on its limited resources. Members of the Legislative Assembly (MLAs) and the public need useful information to understand and assess the performance of government organizations. Organizations use financial statements to demonstrate their accountability for the public resources entrusted to them and to provide information useful in evaluating their financial performance. To understand and assess performance, MLAs and the public need government organizations to follow rigorous accounting rules that report their financial results in a consistent and comparable manner. Also, they need this information in a timely manner.

When government organizations do not follow rigorous accounting rules, they increase the risk that their annual financial statements may misstate their financial results. Incorrect financial statements increase the risk that MLAs and the public will form incorrect conclusions about the organization's financial performance. Also, they increase the risk that MLAs and the public will make incorrect decisions.

In June 2001, The Canadian Institute of Chartered Accountants announced it would begin a project to address the differences that have arisen in the interpretation and application of accounting standards concerning government transfer payments. Clarification of these standards will help to address the matters we raise in this chapter concerning the reliability of the financial statements of the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund.

Saskatchewan Agricultural Stabilization Fund

The Department administers the Saskatchewan Agricultural Stabilization Fund. The Fund reports the transactions of the following six programs.

New Crops Insurance Program
Big Game Damage Compensation Program
Waterfowl Damage Compensation Program
Agricultural Income Disaster Assistance Program (AIDA)
Unseeded Acreage Benefit Program
Canada-Saskatchewan Adjustment Program (CSAP)

The Governments of Canada and Saskatchewan agreed to share the costs of the above programs. The costs are shared equally except for AIDA and CSAP. For AIDA, Canada pays 60% of the costs and Saskatchewan pays 40% of the costs. For CSAP, Canada pays 70% of the costs and Saskatchewan pays 30% of the costs. Saskatchewan administers all the programs except AIDA. Canada administers AIDA.

The laws governing these programs and the agreements between Canada and Saskatchewan require that all money paid into the Fund for these programs can only be used for the purposes of those programs. Also, the Department must return any money received and not used to pay for program costs to Canada and Saskatchewan at the end of the programs. The Fund operates on a break-even basis except for the interest earned on advances, which the Fund is allowed to keep.

The Fund's financial statements for the year ended March 31, 2001 report revenues of $13.3 million and expenses of $8.7 million. The Fund held net assets of $31.7 million at March 31, 2001. This information is incorrect. The financial statements are not reliable as described below.

KPMG thinks the Fund's financial statements are reliable. We did not rely on KPMG's opinion. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of appointed auditors. Our additional work consisted of reviewing the agreements between Canada and Saskatchewan and discussion with the Department's management.

Reliability of the financial statements

The Fund's financial statements understate revenue and overstate the Fund's annual deficit (i.e., annual loss) for 2001 by $0.5 million. Also, the financial statements understate the Fund's liabilities (what it owes to others) by $21.8 million and overstate the Fund's net assets (surplus to date) by $21.8 million. This gives readers of the financial statements the wrong message. The message given is that expenses exceed revenue by $0.5 million and that the Fund has extra money on hand that is no longer needed to pay for future program costs. In fact, revenue is $0.5 million more than reported and the $21.8 million must be used to pay for future program costs.

The errors in the financial statements result from the Department incorrectly recording some revenue. The Department correctly records all money received from Canada. The Department records revenue equal to Canada's share of program costs. The Department records money received from Canada in excess of its share of program costs as a liability owing to Canada until the Department incurs costs under the program. This accounting follows the accounting standards of The Canadian Institute of Chartered Accountants (CICA). However, the Department incorrectly records money received from Saskatchewan. It records this money as revenue immediately regardless of when program costs are incurred.

For example, in 1999 the Fund received $140 million from Saskatchewan to pay for the AIDA program costs for 1999 and 2000. In 1999, the Department recorded the entire $140 million as revenue of the Fund. However, the Department only incurred costs of $70 million for that program in 1999. As a result, the Fund's 1999 financial statements show $70 million more revenue than expenses. In reality, $70 million was received to pay for future costs and is not revenue of 1999. In our opinion, this accounting does not follow the accounting standards of the CICA. In addition, the 2000 financial statements do not show the $70 million, received in 1999 to pay for program costs incurred in 2000, as revenue.

We reported in our 2001 Spring Report that the Fund's 2000 financial statements understated revenue by $70 million. Also the financial statements understate the Fund's liabilities (what it owes to others) by

$22.3 million and overstate the Fund's net assets (surplus to date) by $22.3 million.

As stated earlier, the Department should record money received in advance as a liability and later as revenue when program costs are incurred. Also, because the Fund operates on a break-even basis for the money received from Canada and Saskatchewan, the only net assets of the Fund should be interest earned on advances.

We also reported this matter in our 2001 Spring Report.

We continue to recommend that the Department should record money received from the General Revenue Fund (GRF) as a liability of the Saskatchewan Agricultural Stabilization Fund until it incurs the related program costs or until it returns the money to the GRF.

The Department thinks that because the Fund and the GRF are both part of the Provincial Government, any restrictions between the two cannot be considered external. Therefore, the Department thinks it is appropriate to record the money received from Canada and the GRF differently.

We disagree. We think it is irrelevant that both the Fund and the GRF are part of the Provincial Government. The shared-cost agreements between Canada and Saskatchewan restrict the use of money contributed to the Fund under those agreements for specific purposes. The GRF provided money under the agreements and until the Fund spends the money for those purposes or returns it, the Fund has a debt to the GRF.

On November 1, 2001, the Standing Committee on Public Accounts (PAC) considered this matter. It decided to postpone a decision on our recommendation pending the results of a CICA project that is examining accounting standards concerning government transfer payments.

Timely annual report required

The Farm Financial Stability Act (Act) requires the Department to table a report on the administration of the Fund and audited financial statements. To be a good accountability document, the report should describe the purpose of the Fund, how it manages its key risks, what it has done, where it is now, and what it plans to do.

The Department does not prepare a separate report on the administration of the Fund as required by the Act. Instead, some information about the Fund's programs is provided in the annual reports of the Saskatchewan Crop Insurance Corporation and the Department. We think the Department should prepare a separate annual report for the Fund that includes the audited financial statements.

The Tabling of Documents Act, 1991 required the Department to give the Fund's 2000 annual report and financial statements to the Assembly by October 27, 2000. The financial statements were provided on November 23, 2000. The Act also required the Department to give the Fund's 2001 annual report and financial statements to the Assembly by September 27, 2001. As of November 16, 2001, the annual report and financial statements for 2001 have not been provided.

1. We recommend that the Department should prepare an appropriate annual report for the Fund.

2. We recommend that the Department should provide the Fund's annual report, including audited financial statements, to the Legislative Assembly by the date required by law.

Agri-Food Innovation Fund

The Department of Agriculture and Food administers the Agri-Food Innovation Fund. The purpose of the Fund is to enhance the diversification of the agri-food industry, support research and development, and encourage the creation of economic opportunities and jobs.

The Fund's financial statements for the year ended March 31, 2001 report net financial assets of $13.7 million. This is incorrect. The net financial assets of the Fund are overstated by $8.4 million, as described below.

Reliability of the financial statements

The Fund's financial statements understate the Fund's liabilities (what it owes to others) by $8.4 million and overstate the Fund's net financial assets (surplus to date) by $8.4 million. These statements give readers the wrong message. The message given is that the Fund has extra money on hand that it can keep because it is no longer required to pay for future program costs. In fact, the Fund must either spend the $8.4 million on future program costs or return it to the General Revenue Fund (GRF).

Canada and Saskatchewan advanced money to the Fund to pay for the program costs. The laws governing the Fund and the shared-cost agreement between Canada and Saskatchewan require that all money paid into the Fund can only be used for certain stated purposes. Also, the Fund must return any unspent money to Canada and Saskatchewan at the end of the program. In other words, the Fund is designed to operate on a break-even basis except for interest income earned on advances, which it is allowed to keep. Accordingly, these advances should be recorded as liabilities (i.e., as amounts owed back to Canada and Saskatchewan) until the Fund incurs program costs. When program costs are incurred, the Fund should deduct an equal amount from liabilities and record it as revenue to offset the program costs.

The errors in the financial statements result from the Department incorrectly recording advances from Saskatchewan. The Department correctly records advances from Canada as a liability and later as revenue when it incurs program costs. This accounting follows the accounting standards of The Canadian Institute of Chartered Accountants (CICA). However, the Department incorrectly records advances from Saskatchewan as revenue even though it has not yet incurred the related program costs.

Since its inception, the Fund received $28 million in advances from the Saskatchewan GRF, which it recorded as revenue. However, to date the Fund has only incurred $19.6 million in related program costs. Therefore, it appears as if the Fund has a surplus to date of $8.4 million. In reality, the $8.4 million is not surplus to the Fund because it must either use this money to pay for future program costs or return it to the GRF. In our opinion, the Department has not followed the accounting standards of the CICA.

The Department should record money received in advance as a liability and later as revenue when programs costs are incurred. Also, because the Fund operates on a break-even basis for money received from Canada and Saskatchewan, the only net financial assets of the Fund should be interest earned on advances.

We also reported this matter in our 2001 Spring Report.

We continue to recommend that the Department should record money received from the General Revenue Fund as a liability of the Agri-Food Innovation Fund until the Fund incurs the related program costs or until it returns the money to the GRF.

The Department thinks that since the Fund and the GRF are both part of the Provincial Government, any restrictions between the two cannot be considered external. Therefore, the Department thinks it is appropriate to record the money received from Canada and the GRF differently.

We disagree. We think it is irrelevant that both the Fund and the GRF are part of the Provincial Government. The shared-cost agreement between Canada and Saskatchewan restricts the use of money contributed to the Fund under that agreement for specific purposes. The GRF provided money under the agreement and until the Fund spends the money for those purposes or returns it, the Fund has a debt to the GRF.

On November 1, 2001, the Standing Committee on Public Accounts (PAC) considered this matter. It decided to postpone a decision on our recommendation pending the results of a CICA project that is examining accounting standards concerning government transfer payments.

Pastures Revolving Fund

The Pastures Revolving Fund provides for the establishment, operation, management and maintenance of pastures, programs and services related to pasture and livestock management. It also provides programs related to developing, protecting and promoting the environmental, social, or economic use of pastures. In 2001, it had revenues of $6.3 million and expenses of $6.3 million. At March 31, 2001, it held assets of $2.8 million.

Financial management needs improvement

Effective August 1, 2000, the Revolving Fund became responsible for any revenue generated by *The Provincial Lands Act* on provincial land used for pastures. This includes revenue from oil and gas leases.

The Department's accounting staff was not aware that the Revolving Fund was entitled to this additional revenue until the end of the fiscal year. Interim financial reports did not include this additional revenue and as a result, forecast information reviewed by management was misstated by approximately $627,000. For example, the forecast for the year ending March 31, 2001 prepared in December 2000 forecasted oil and gas lease revenue to be $60,000. The final amount of revenue from oil and gas leases in 2000-01 was $687,000.

Management needs procedures to ensure that its staff are aware of all authorized revenue the Fund is responsible for collecting. Without accurate financial reports, management cannot adequately manage the Revolving Fund's operations and activities.

3. We recommend that the Department develop procedures to ensure that its staff are aware of all authorized revenue it is responsible for collecting.

Loss to the Crown

Section 12(e) of *The Provincial Auditor Act* requires that our office report any cases in which "there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person."

During the year, the Pastures Revolving Fund compensated persons whose cattle died or were injured due to dehydration at the Meyronne community pasture. The loss and injury to cattle was the result of actions of staff and the Department of Agriculture and Food has accepted full responsibility. The total amount of compensation paid by the Fund was $219,000.

The Department has adequate written procedures for the care and handling of livestock in its community pastures. However, employees at the Meyronne community pasture did not follow those procedures. When the matter came to the attention of the Department, it terminated the employment of those employees.

Livestock Services Revolving Fund

The Department uses the Livestock Services Revolving Fund to operate the Brand Inspection Program, the Livestock Inspection Program, and the Livestock Dealer-licensing Program. The Fund also provides administrative services to other Funds.

For the year ended March 31, 2001, the Revolving Fund had revenues of $2.5 million and expenses of $2.6 million. It held assets of $0.3 million at March 31, 2001.

Financial reporting needs improvement

The Department needs to prepare and submit accurate financial statements in accordance with requirements set out in the Financial Administration Manual (FAM) issued by the Department of Finance.

Section 1010 of FAM requires the Department to prepare and submit quarterly and annual financial statements to Treasury Board. The financial statements must be prepared in the same format as the annual financial statements, i.e., on the accrual basis of accounting. This requirement reflects good financial reporting practices.

Employees of the Department did not follow the rules and procedures described in FAM to prepare financial statements. For example, the Fund's quarterly financial statements did not record all of the amounts owed by the Fund. Also, the Department did not submit the Fund's quarterly financial statements to Treasury Board.

In addition, the Fund's annual financial statements presented for audit overstated the Fund's liabilities by $203,000. The Department corrected the error.

4. We recommend that the Department should prepare accurate quarterly and annual financial statements and submit them to Treasury Board in accordance with the requirements of the Financial Administration Manual.

Prairie Agricultural Machinery Institute

The Prairie Agricultural Machinery Institute tests and appraises machinery, undertakes research and development projects, and publishes reports, bulletins and pamphlets related to the agriculture and food industry. For the year ended March 31, 2001, the Institute had revenues of $4.3 million and expenses of $4.3 million. It held assets of $5.2 million as at March 31, 2001.

Control of bank account required

The Institute has not adequately segregated the duties of employees who control the bank account. Segregation of duties is inadequate when an employee is put in a position to perpetrate and conceal errors or frauds in the normal course of their duties without timely detection.

We found that one employee is responsible for signing cheques, preparing and approving bank reconciliations, supervising one of the other two cheque signers, recording financial transactions, and preparing the Institute's financial reports.

5. **We recommend that the Institute should adequately segregate the duties of employees who control the bank account.**

Saskatchewan Crop Insurance Corporation

The Saskatchewan Crop Insurance Corporation (SCIC) pays grain and livestock producers for crop production failures due to weather-related and other natural perils. The Federal Government helps pay for this program. Payments to producers are made under the Canada-Saskatchewan Crop Insurance Program. The Program guarantees a minimum crop yield to agricultural producers, subject to specific insurance decisions made by each producer. Premiums are calculated to cover the risk of loss.

In 2001, SCIC held assets of $309.4 million, had revenues of $203.2 million, and had expenses of $158.3 million. SCIC's Annual Report 2001 includes its financial statements.

SCIC insured 29.4 million seeded acres and had 34,000 contracts for the 2000 crop year covering over 94,000 crops. There were 15,000 hail claims and 12,000 yield loss, reseeding, and unseeded acreage claims. SCIC incurred claim costs of $56.4 million for hail loss and $76.7 million for all other losses including yield losses.

SCIC also manages the Crop Reinsurance Fund of Saskatchewan. This Fund receives a portion of annual premiums collected by SCIC. When SCIC incurs losses, the Fund pays SCIC for part of the losses.

Timely annual report required

SCIC was six months late with its 2000 Annual Report and one month late with its 2001 Annual Report. *The Tabling of Documents Act, 1991* required SCIC to give its 2000 Annual Report to the Legislative Assembly by October 27, 2000 and its 2001 Annual Report by September 27, 2001. SCIC gave its 2000 Annual Report to the Assembly on April 27, 2001 and its 2001 Annual Report on October 25, 2001.

6. We recommend that Saskatchewan Crop Insurance Corporation give its annual report to the Legislative Assembly by the date required by law.

SCIC's progress toward improving its claims adjusting system

In 1998-99, we audited SCIC's systems and practices for adjusting claims. In our 1999 Spring Report, we reported that SCIC had adequate systems and practices to adjust claims fairly, quickly, and accurately. However, we made five recommendations to help SCIC improve its adjusting practices. During 2000-01, we reviewed what SCIC has done to address our recommendations. Below, we note our original recommendations and describe SCIC's progress.

On November 1, 2001, the Standing Committee on Public Accounts (PAC) considered this matter and concurred with our recommendations.

Board of directors needs to provide more direction to the Audit Division

Recommendation 1 - SCIC's Audit Division should report directly to the Board or a committee of the Board on the adequacy of rules and procedures that management uses to adjust claims. The Board should review and approve the Audit Division's work plan and resources. The Board needs to receive regular reports on the examinations and investigations carried out by the Audit Division including the work done on the adequacy of the SCIC's rules and procedures to adjust claims.

SCIC's Board of directors (Board) needs to formally approve the Audit Division's work plan.

Boards are responsible for overseeing their organizations' business. To conduct business, a board delegates responsibilities to management and expects management to be accountable for its actions. Management accounts for its actions by providing the board with information to assess management's effectiveness in carrying out its responsibilities.

We expect that in organizations that carry out diverse programs and activities, the board would receive independent assurance from its internal audit division that management operates according to the board's direction. To be independent, the audit division should report directly to the board or to a committee of the board on all of the audit division's activities, including results of examinations, investigations, and the adequacy of corrective action taken by management. The reports should also include the findings, e.g., what adjuster procedures are not being followed and the reason for audit adjustments. The Board should approve the audit division's work plan and resources. This will help the Board discharge its responsibilities.

SCIC's Board now receives and discusses the Audit Division's work plan and resources. The Board also approves the total resources for the Audit Division. However, the Board does not formally approve the Division's work plan. A formally approved plan will help the Board in evaluating the Division's performance. The Board also can ask questions if the plan is not carried out. Management told us that the Board approved the work plan but did not document this approval in the minutes.

In March 2000, SCIC's Board directed the Audit Division to report to the Board at least semi-annually. The Division reported once to the Board during the year ended March 31, 2001. Management told us that the senior audit manager is available at all Board meetings to answer questions. The Division's report to the Board includes information on the number of audits done by region and the resulting adjustment to claims in dollars. However, the report does not include the reasons for those adjustments. Also, the Division's report to the Board does not include any assurance whether SCIC's rules and procedures to adjust claims are adequate, and what corrective action, if any, is needed.

We continue to recommend that SCIC's Board of directors should formally approve the Audit Division's work plan. The Division should report to the Board of directors semi-annually as directed by the Board. Also, the Division should report directly to the Board on the adequacy of rules and procedures that management uses to adjust claims.

The Board needs better information

Recommendation 2 - SCIC's management needs to provide better information to the Board on operating divisions' plans and on performance reports showing how divisions are doing compared to what they planned.

The Board has not determined or told management its reporting needs.

Boards typically delegate to management the responsibility to prepare operating and financial plans. A board approves the plan and holds management accountable for it. The board monitors how management is progressing by receiving regular performance reports from management showing how the organization is doing compared to what was planned and written explanations of differences. To ensure a board receives the information necessary to monitor management, the board must tell management the type of information it expects and when it expects to receive it.

All operating plans are provided to the Board for discussion and approval. The Board discusses those plans, but does not formally approve them. The Board needs to do so. The Board does approve some of the operating divisions' planned resource needs. Management told us that the Board approved all operating plans but did not document this approval in the minutes.

Management regularly provides reports to the Board including:

- information on budget and actual expenses;
- crop conditions by region;
- the number of claims received by region and crop type;
- management's projection of claims for the year; and
- claim dollars paid to date by crop type.

Management's operating reports to the Board also include updates on various projects being worked on with its findings and recommendations. However, the Board does not ask for or receive a complete comparison of planned performance to actual performance with written explanations of significant differences. Planned performance should include key performance targets and resources required to accomplish those targets. For example, planned performance would include the expected number of claims and claim costs. This comparison is important for the Board to effectively oversee operations. Accountability is improved when internal and external financial reports include planned and actual results. Currently, SCIC's internal reports do not disclose all planned and actual performance.

We continue to recommend that SCIC's management should provide better information to the Board on its operating plans and on performance reports that compare actual results to the planned results.

Rules and procedures for suspicious claims improving

Recommendation 3 - SCIC should improve the guidance it gives to the claim adjusters to enable them to identify suspicious claims. SCIC should also establish written rules and procedures for investigating suspicious claims.

SCIC needs written rules and procedures for investigating suspicious claims.

To help staff identify suspicious claims, SCIC's training sessions and procedures manuals should include a description of "red flags" of suspicious claims and practices for investigating suspicious claims. These “red flags” are common warning signs or indicators that are widely used in the insurance business to help identify suspicious claims. We also expect that supervisors would regularly review adjusters’ work to ensure it is completed in accordance with SCIC’s established rules and procedures.

SCIC now has guidance for identifying suspicious claims. Management explained the guidance for identifying suspicious claims to claims adjusters at SCIC’s 2001 spring training for adjusters. However, management provides little guidance on how to investigate suspicious claims.

SCIC continues to improve supervision of its staff. All supervisors now annually assess adjusters’ work and provide coaching. In the past, supervisors attempted to review and approve all adjusters’ work, resulting in delays in settling claims. Now, management has guidance for supervisors to review and approve all junior adjusters work and to review work of senior adjusters on a sample basis.

We continue to recommend that SCIC should establish written rules and procedures for investigating suspicious claims.

Better evidence of work done to adjust or verify claims required

Recommendation 4 - SCIC should ensure that adjusters leave clear evidence of work that they have done to adjust or to verify claims.

SCIC needs to ensure that adjusters leave clear evidence in the claim files of the work they have done to adjust or to verify claims.

We expect SCIC would have written policies and procedures that define the authority, responsibility and accountability for adjusting claims to ensure claims are adjusted fairly, quickly, and accurately. We expect SCIC would require its adjusters to use a checklist to ensure completion of all adjusting procedures. Also, we expect SCIC would have written rules and procedures to clarify the nature and extent of verification of prior years’ (old) production.

SCIC now requires its adjusters to complete an adjuster supplementary form. This form lists procedures to be completed and serves as a reminder to ensure all procedures are completed.

However, claimants may include current year's production with old production in the same storage facility. As a result, adjusters find it difficult to determine the current year's production. The adjuster needs to know the current year's production to adjust the claim. SCIC's guidance directs adjusters to verify the accuracy of the old production in storage based on expected claim areas. Other crop agencies outside Saskatchewan verify a sample of potential claimants' old production in storage by physically measuring the grain in storage. We think SCIC should provide written guidance to adjusters as to which potential claimants and how many of them should have their old production verified.

We expect SCIC would provide staff with guidance as to when to use the global positioning system (GPS) units as a tool to measure the areas of land covered by a claim. We also expect SCIC would prepare a cost-benefit analysis for assessing the need for additional GPS units.

SCIC has adequate rules and procedures for when to use GPS units. We found SCIC has completed a cost-benefit analysis on the need for additional global positioning system (GPS) units. SCIC's analysis shows GPS hand-held units are lower in cost than the cost of measuring wheels. SCIC is now replacing measuring wheels with GPS units, as the wheels need to be replaced.

We continue to recommend that SCIC should ensure that adjusters leave clear evidence in the claim files of the work that they have done to adjust or verify claims.

Evidence of work done by auditors needs further improvement

Recommendation 5 - SCIC should ensure that auditors leave clear evidence of work that they have done to adjust or to verify claims.

The Audit Division needs to document the nature, extent and timing of claims it plans to audit.

To help SCIC's Audit Division prepare its work plan and regular reports, we expect it would document: the method used to determine the number and type of audits to do; when to do the audits; the time allotted to complete an audit; and what action to take when audits require more time. It should also document how to report audit findings and the procedures necessary to follow up audit findings to ensure corrective action is taken. We also expect the Audit Division would use a checklist to ensure all audit procedures are completed and clear evidence is left of the work done for each audit.

The Audit Division selects claims to audit based on referrals from management. Management refers to the Division those claims that it considers suspicious and/or where the claimant has a high claim loss to premium ratio. However, the Division needs to improve its written rules and procedures to determine the number and type of claims to audit; when to audit those claims; and the resources needed to complete those audits. It should also document its procedures for reporting audit findings and assessing and reporting corrective actions taken by management.

We expect SCIC's Audit Division plan would include information about the number and type of audits it plans to do and the rationale for doing them. The Division's plan should also include the resources it plans to use and when. The Division continues to improve its audit plan. The audit plan now includes the number and type of audits, when they will be done, and the percentage of the total of the Division's time that is required for those audits. The plan does not yet include the rationale for the number and type of audits planned and the average cost per audit. The plan also does not include the resources required to carry out the plan.

The Audit Division's reports to the regional managers identify areas where adjusters need improvement. Also, the Division completes a "claim information questionnaire" with claimants as means of determining if adjusters completed their work appropriately. We examined a sample of claim files audited by the Audit Division and noted that the auditors follow the policy and procedures manual. We found the Division has begun to use a checklist to ensure that all procedures are completed and auditors have begun to leave clear evidence of the work they have done to verify claims.

We continue to recommend that SCIC should ensure that auditors leave clear evidence in the claim files of the work that they have done to adjust or verify claims.

Our plans

We will continue to monitor the SCIC's actions to address our recommendations. We will report our findings, if any, in a future report. Also, we plan to work with SCIC and its appointed auditor to identify the key risks that SCIC faces. To carry out our work, we must understand the risks facing an organization. We will discuss our understanding of those risks with SCIC's management to confirm that we have identified the right risks. Then, we will publicly report those risks. It is important that the legislators and the public know the key risks facing an organization and receive information on these risks to understand and assess an organization's performance. Sharing our understanding with legislators and the public will help them better understand and assess SCIC's performance.

SCIC's management, staff, and appointed auditor gave us excellent co-operation throughout the audit. We appreciate their support and thank them.