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Main points

The Department is responsible for 14 agencies with March 31 year-ends. The Department and each of these agencies complied with the authorities governing their activities except for Saskatchewan Agricultural Stabilization Fund (SASF). Each agency prepared reliable financial statements for the year ended March 31, 2006 except for SASF, which recorded transfers from the General Revenue Fund incorrectly. Also, the Department and these agencies had adequate processes to safeguard public resources except for SASF, Saskatchewan Crop Insurance Corporation (SCIC), and Pastures Revolving Fund.

For the last two years, the Department did not prepare an annual report for SASF or provide the Fund's financial statements to the Assembly by the date required by law.

SCIC needs to strengthen its processes for estimating and paying insurance claims that farmers submit. During 2005-06, SCIC lost public money totalling \$286,000 resulting from paying incorrect claims.

We continue to recommend that the Department include sufficient guidance on financial reporting in the Pastures Revolving Fund's Financial Manual.

As at June 30, 2006, the Department had adequate systems for succession management except for the processes it uses to analyze the impact of future workforce gaps on the achievement of its objectives.

Introduction

The mandate of the Department of Agriculture and Food (Department) is to foster a commercially viable, self-sufficient, and sustainable agriculture and food sector. Working with individuals, businesses, communities, and governments, the Department assists farmers and ranchers, encourages higher value production and processing, and promotes sustainable economic development in rural Saskatchewan.¹

This chapter contains the results of our audits of the Department and its special purpose funds and agencies with March 31, 2006 year-ends including our audit of the Department's succession management processes.

Financial overview

Exhibit 1 sets out the Government's total agricultural expenses and revenues as reflected in the Government's summary financial statements.

Exhibit 1

	2006	2005
	(in millions of dollars)	
Agriculture expenses by program:		
Crop insurance	\$ 153	\$ 473
Farm stability	280	238
Other	79	69
	<u>\$ 512</u>	<u>\$ 780</u>
Agriculture revenues by source:		
Federal Government	\$ 130	\$ 255
Producers' crop insurance premiums	105	109
Sales, services, fees, and other	52	44
	<u>\$ 287</u>	<u>\$ 408</u>

The Department's 2005-2006 Annual Report² contains information about the Department's revenues and expenses. Each of the special purpose

¹ Saskatchewan Department of Agriculture and Food. (2005). *2005-06: Saskatchewan provincial budget performance plan: Saskatchewan Agriculture and Food*. Regina: Author. page 2.

www.agr.gov.sk.ca/docs/about_us/department_info/agriculture0506plan.pdf

² www.agr.gov.sk.ca/DOCS/about_us/department_info/SAF0506annualrpt.pdf

funds and Crown agencies provides their financial statements to the Assembly each year. These are available in the Public Accounts 2005-06 compendium.³

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies. Each, except for the Milk Control Board, has a March 31 year-end. The Milk Control Board has a December 31 year-end.

Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Agri-Food Council
Agri-Food Innovation Fund
Beef Development Board
Cattle Marketing Deductions Fund
Crop Reinsurance Fund of Saskatchewan
Horned Cattle Fund
Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund
Livestock Services Revolving Fund
Milk Control Board
Pastures Revolving Fund
Prairie Agricultural Machinery Institute
Saskatchewan Agricultural Stabilization Fund (SASF)
Saskatchewan Crop Insurance Corporation (SCIC)

Our audit conclusions and findings

Our Office worked with the following appointed auditors:

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

- ◆ Meyers Norris Penny LLP
 - Agricultural Credit Corporation of Saskatchewan

³ www.gov.sk.ca/finance/paccts/paccts06/compendium/index.htm

To complete our work on the above-listed agencies, we used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (www.auditor.sk.ca/rrd.html). Our Office and the appointed auditor of the related agency formed the opinions below with the following exception.

We did not rely on KPMG's opinion on SASF's financial statements for the year ended March 31, 2006. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the report of an appointed auditor. Our additional work consisted of reviewing the agreements between Canada and Saskatchewan and discussion with the Department's management.

In our opinion, for the year ended March 31, 2006:

- ◆ **the Department and its agencies had adequate rules and procedures to safeguard public resources except where we report in this chapter**
- ◆ **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except where we report in this chapter**
- ◆ **the financial statements of the Department's agencies are reliable except for the financial statements of the Saskatchewan Agricultural Stabilization Fund**

Saskatchewan Crop Insurance Corporation

Introduction

The Saskatchewan Crop Insurance Corporation administers a crop insurance program for crop losses due to weather-related and other natural perils. The program guarantees a minimum crop yield and quality of grain to agricultural producers, subject to specific insurance decisions made by each producer. Crop producers and the Governments of Saskatchewan (Saskatchewan) and Canada (Canada) pay for this program in accordance with the Canada-Saskatchewan Implementation

Agreement. In the 2005 crop year, SCIC insured 28.6 million seeded acres involving 30,413 contracts.

SCIC's 2006 Annual Report⁴ includes its audited financial statements. Those financial statements report that in 2005-06, SCIC had revenues of \$229.1 million, expenses of \$101.6 million (including insurance claims of \$75.9 million), and total assets of \$291.9 million.

SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Fund). SCIC pays to the Fund a portion of its total premium revenue. In return, the Fund pays SCIC a certain percentage of the losses when SCIC losses exceed amounts described in the Agreement. In 2005-06, the Fund had revenue of \$33.0 million, expenses of \$2.2 million, and an accumulated deficit of \$152.9 million.

Processes to estimate claims need strengthening

SCIC needs to strengthen its processes for estimating and paying insurance claims that farmers submit.

Most insurance companies have processes to estimate correctly the losses for insurance claims received. They set out processes for employees to determine what losses are covered and the limits (coverage) under the insurance sold including any changes to the standard coverage that an insured may request. To help employees estimate claims correctly and quickly, insurance companies provide clear direction to employees on what information they must maintain. They also ensure that employees diligently follow their established processes.

Generally, insurance companies require their employees to use the insurance policy information and knowledge of any severe weather conditions in the area of coverage to determine the value of claims. They also require branch management to consider the losses claimed in any specific geographic area to the losses expected in that area because of severe weather conditions before mailing out the claims cheques.

Similar to other insurance companies, SCIC has established rules and procedures to estimate insurance claims quickly and correctly. It also requires its employees to consider weather conditions when estimating

⁴ Available at www.saskcropinsurance.com

claims. However, SCIC did not have adequate processes to ensure that branch management review claims for reasonability considering any other claims settled within the geographic vicinity of the claim and terms of the policy issued.

Also, SCIC did not have adequate processes to ensure employees correctly record in the computer system changes to coverage requested by farmers. While SCIC identified insured requested coverage changes for its branches to follow up, some branches did not verify that the coverage changes recorded in SCIC's system agreed to the insured's requests.

As a result, SCIC paid incorrect claims to three farmers in prior years. SCIC became aware of these errors in early 2005 and 2006. SCIC should have paid \$487,000 for claims in accordance with the terms of the insurance policy issued. Instead, SCIC paid the farmers \$773,000. Accordingly, SCIC lost public money totalling \$286,000.

Management told us SCIC has filed a claim against one farmer to recover the excess amount paid. Also, management told us SCIC finalized 2005 crop year claims totalling \$44,000 for this farmer in August 2006, and that SCIC intends to use the \$44,000 to reduce the amount the farmer owes.

- 1. We recommend that Saskatchewan Crop Insurance Corporation establish a process to correctly record and verify all changes to insured crops.**
- 2. We recommend that Saskatchewan Crop Insurance Corporation establish a process to investigate claims that exceed their expected losses before paying them.**

Management told us that SCIC has now strengthened its processes to correctly record and verify all changes to insured crops in its computer system. Management also told us SCIC has implemented a process to investigate claims that exceed their expectation before paying them.

Saskatchewan Agricultural Stabilization Fund

Introduction

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

- The New Crops Insurance Program
- The Big Game Damage Compensation Program
- The Waterfowl Damage Compensation Program
- The Agricultural Income Disaster Assistance Program (AIDA)
- The Canadian Farm Income Program (CFIP)
- The Canada-Saskatchewan Bovine Spongiform Encephalopathy Recovery Program (BSE)
- Canada-Saskatchewan Assistance Program

SASF's 2005-06 financial statements report revenues of \$10.8 million, expenses of \$13.5 million, and net financial assets of \$7.9 million.

The Government of Canada (Canada) and the Government of Saskatchewan (Saskatchewan) agreed to share the costs of the above programs. Saskatchewan administers all the programs except AIDA and CFIP. Canada administers AIDA and CFIP. The laws governing these programs and the agreements between Canada and Saskatchewan require that SASF must use all money paid into it for the purposes of those programs. In addition, 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. SASF operates on a break-even basis except for the interest income earned on advances, which SASF may keep.

Accounting for grants

In our 2004 Report – Volume 3 and previous reports, we report that the Department and our Office disagree on the interpretation of Canadian generally accepted accounting principles for recording revenues from transfers (grants).

In November 2002, the Standing Committee on Public Accounts (PAC) considered this matter and heard that The Canadian Institute of

Chartered Accountants (CICA) is currently examining accounting standards concerning government transfer payments to clarify principles for recording transfers because the current standards are open to interpretation. PAC deferred its decision pending the result of the CICA project. The CICA's project is not finished.

Employees need to follow the established processes

The Department needs to ensure its employees follow the established processes for preparing financial reports and the year-end financial statements for the Fund.

Agencies need accurate and timely financial reports to make informed decisions. They need to define the financial reports they need to monitor operations and establish processes to prepare those financial reports.

The Department has defined the financial reports it needs to monitor the operations of the Fund. The Department requires quarterly internal financial reports and annual financial statements. The Department has also established and communicated written guidance for employees to follow when preparing the Fund's financial reports and the year-end financial statements. However, employees did not follow those processes.

Employees did not prepare quarterly financial reports for the first two quarters and prepared inaccurate reports for the third quarter for monitoring operations. Employees also prepared inaccurate financial statements for the year ended March 31, 2006 that the Department provided to the auditors. The financial report and financial statements overstated the BSE program expenses by \$1 million. To help monitor operations the Department also uses operational reports showing program activities including cash paid to date and forecasted to the end of the program.

The Department corrected the year-end financial statements when informed of the errors. Inadequate and incomplete financial reports increase the risk of inappropriate or incorrect financial decisions.

3. We recommend the Department of Agriculture and Food follow its established processes for preparing accurate and

timely internal financial reports and year-end financial statements.

Timely annual report required

The Farm Financial Stability Act requires the Department to table a report on the administration of the Fund and its audited financial statements. To be a good accountability document, the report should describe the purposes of the Fund, its risk management processes, what it has done, where it is now, and what it plans to do.

The Department gave the Legislative Assembly a separate report on the administration of the Fund for the years ended March 31, 2002, 2003, and 2004. *The Tabling of Documents Act, 1991* requires the Department to give the Assembly the Fund's annual report and the audited financial statements by July 29, 2005 and 2006, respectively.

Although the Department gave the Assembly the Fund's audited financial statements for the year ended March 31, 2005 on February 16, 2006, it has not given the Assembly the Fund's 2006 financial statements. Nor did the Department give the Assembly separate reports on the administration of the Fund for the years ended March 31, 2005 and 2006.

Accordingly, the Department did not comply with the *Tabling of Documents Act, 1991* and the *Farm Financial Stability Act*.

- 4. We recommend the Department of Agriculture and Food prepare and provide the Legislative Assembly with the Fund's annual report and the audited financial statements by the date required by the law.**

Management told us it plans to table the Fund's annual report including the audited financial statements for the year ended March 31, 2006 with the Legislative Assembly later this fall.

Pastures Revolving Fund

Introduction

The Department of Agriculture and Food uses the Pastures Revolving Fund (Fund) to provide 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, and economic use of pastures.

For the year ended March 31, 2006, the Fund had revenue of \$7.7 million, expenses of \$7.3 million, and assets of \$4.4 million.

Financial reporting guidance needs improvement

The Department needs to improve the written guidance it provides to staff on financial reporting for the Fund.

Written guidance forms part of an agency's system of control. Usually, an agency provides such guidance in the form of an accounting policies and procedures manual. Such a manual guides staff as they carry out their duties. Recorded policies and procedures help in the orderly and efficient conduct of business and help ensure financial reports are accurate.

An accounting policies and procedures manual should describe:

- ◆ the information needs of senior management and central agencies, if any
- ◆ the tasks and responsibilities related to financial processes
- ◆ the significant accounting policies together with procedures necessary to ensure financial reports are properly prepared in accordance with generally accepted accounting principles
- ◆ detailed administrative control procedures for all accounting systems

Department staff responsible for the Fund refer to guidance in the Government's Financial Administration Manual (FAM) and the Fund's Policy and Procedure Manual. During 2005-06, Department staff developed a Financial Manual. FAM and the Fund's Financial Manual

contain some but not all components of the information required in an accounting policies and procedures manual.

For example, FAM provides guidance on accounting policies appropriate for revolving funds in section 3215. However, neither FAM nor the Fund's Financial Manual provide direct, detailed guidance on procedures necessary to ensure that the Fund's financial reports are prepared in accordance with generally accepted accounting principles.

The Department needs to provide staff with sufficient detailed policies and procedures for the Fund to account for such transactions as:

- ◆ bad debts expense
- ◆ capital asset additions, disposals, and amortization
- ◆ lease revenues including unearned revenues
- ◆ timber sales contract revenues
- ◆ GST remittances

The 2006 financial statements presented for audit contained the following errors. Proper guidance on financial reporting would have helped staff to prepare financial statements without these errors.

- ◆ accounts receivable were understated by \$109,300
- ◆ capital assets were understated by \$45,000
- ◆ unearned revenue was understated by \$242,100
- ◆ timber revenue was overstated by \$143,900

In addition, the Department had not promptly remitted over \$400,000 of GST that it collected during the year until after the Fund's year-end. Documented guidance for reconciling the Fund's accounting records and remitting GST would have helped to prevent this oversight.

We continue to recommend that the Department include sufficient guidance on financial reporting in the Pastures Revolving Fund's Financial Manual.

The Standing Committee on Public Accounts considered this matter on June 20, 2005 and agreed with our recommendation.

Succession management

Background

The Department conducts its activities in nine business centres located throughout Saskatchewan. It has 530 full-time equivalent positions of which about 77% are unionized. Many of its positions require special competencies (e.g., agricultural economists, irrigation technicians). Recruiting staff with these special competencies is challenging. During the next decade, the Department's human resource risks will increase due to changes in national and provincial demographics.

The Department provides human resource services to three other agencies: Information Technology Office, Department of Regional Economic and Cooperative Development, and Prairie Diagnostic Services. The Department also provides limited human resource support to the Saskatchewan Crop Insurance Corporation.

Succession management, a key part of human resource management, is a systematic approach to ensure a continuous supply of talented employees. Succession management develops strategies to help ensure the agency has people with the right skills in the right places in the future. We audited succession management within the Department itself, and not the agencies it serves.

Audit objective and criteria

The objective of our audit was to assess the adequacy of the Department's systems for succession management as at June 30, 2006.

To assess the adequacy of the Department's systems, we used the criteria summarized in Exhibit 2. To do this work, we followed *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

Criteria outline our expectations. We developed the criteria based on our review of relevant literature and criteria used by other legislative audit offices. The Department agreed with the criteria.

Exhibit 2 – Audit Criteria

To have adequate systems for succession management, the Department should:

1. analyze the workforce competencies required to achieve its objectives
2. align its succession plan with its long-term strategic direction
3. develop strategies for the succession of its workforce
4. evaluate its progress

Conclusion, recommendation, and findings

At June 30, 2006, the Department had adequate systems for succession management except for the processes it uses to analyze the impact of future workforce gaps on the achievement of its objectives.

- 5. We recommend that the Department of Agriculture and Food analyze the impact of anticipated workforce competency gaps on its capacity to achieve its objectives.**

The following sets out our main findings and describes our expectations in italics under the criteria noted above.

Analyzing workforce competencies to achieve objectives

To analyze the workforce competencies required to achieve its objectives, we expected the Department to:

- ◆ *assess the competencies of its current workforce*
- ◆ *identify the supply of competencies required for its future workforce*
- ◆ *analyze the impact of future workforce gaps on its objectives*

To assess the competencies of its current workforce, the Department uses standard job competencies set out by the Public Service Commission. The Department also uses *Planning for Success*, a performance management process that helps identify the strengths and learning needs of its current workforce.

Each year, management discusses the competencies that Department staff will need in the future. After identifying these competencies, human resource consultants analyze the internal and external supply of people with related skills. They also identify workforce gaps and risks that could affect the future supply of specific occupational groups.

The Department lists competencies that may be in short supply in the future (e.g., livestock specialists) and ranks as high risk those where the external supply of candidates is likely to be insufficient.

The Department's analysis of the supply of competencies identifies that 2010-2014 are the probable peak-retirement years for its workforce in general and for managers in particular. Its Human Resource (HR) Plan highlights the leadership and technical competencies where the Department is at greatest risk. For example, it highlights positions related to land-use planning and livestock issues. However, the Department does not identify when shortages of specific technical competencies could be most severe except for potential retirements of agrologists and business consultants in a 5-10 year period.

The Department does not explicitly link the expected workforce gaps or shortages to the objectives in its Performance Plan. Identifying workforce gaps is most useful if the employer forecasts when there will be an inadequate supply of skilled workers to achieve its objectives. Knowing when specific objectives might be at risk due to a specific competency shortage strengthens succession management.

As noted earlier, the Department expects retirements to peak in 2010-14. For critical technical competencies, the Department needs to analyze occupational groups that may be in short supply on a year-by-year basis. Then, the Department would be able to analyze the impact on its capacity to achieve its objectives during that time. This analysis would help it plan effective human resource strategies in time to fill workforce gaps.

Aligning succession plans with strategic direction

To align its succession plan with its long-term strategic direction, we expected the Department to:

- ◆ *align succession strategies with its long-term strategic direction*
- ◆ *communicate its overall succession strategies*

The Department's succession strategies are consistent with its long-term strategic direction. The Department uses work and learning plans to show how each employee's work helps to achieve the Department's objectives. The Department also aligns its plans with specific government directives (e.g., diversity in the workforce).

The Department's HR Plan is not made available to staff. However, all staff have intranet access to a list of competencies required for specific positions. The Department also uses internal memos and work plans to communicate how it plans to develop key competencies to meet its future needs. The Department could better coordinate how it communicates its overall human resource strategies (e.g., on the intranet). Centrally coordinated communication could help staff plan to update their own competencies before the expected competency gaps or workplace shortages arise.

Developing strategies for workforce succession

To develop strategies for the succession of its workforce, we expected the Department to:

- ◆ *prepare strategies for bridging the identified workforce gaps*
- ◆ *address risks that could impact the strategies*

The Department has developed strategies for bridging identified workforce gaps. The strategies include initiatives to retain and develop current employees as well as to recruit new employees. For example, the Department uses employee learning plans for its employees and develops potential managers with programs such as the Enhancing Management Potential and Leadership Development programs. The Department uses diversity awareness training to enhance employee retention rates. It also gathers information during employee surveys and exit interviews to help it improve the agency's culture and retain its employees. Also, the Department uses university websites, career fairs, internships, and mentorship strategies to gain recruitment opportunities.

Strategies developed by the Department are subject to risks that could reduce their effectiveness. The Department addresses these risks in various ways. For example, to increase the supply of qualified candidates, the Department attends career fairs in schools to promote employment in the agriculture industry and in government. It also advertises its vacant positions on a university website that attracts agriculture graduates.

Another risk that could impact the success of its strategies is the risk that employees do not see the connection between their own work and the objectives of the Department. To address this risk, the Department invites all its employees to develop a performance plan called a “work and learning plan.” These work and learning plans show the link to the Department’s objectives. In March 2006, 74% of all its employees (including 100% of out-of-scope employees) had a work and learning plan.

Evaluating progress

To evaluate its progress in succession management, we expected the Department to:

- ◆ *monitor progress made in addressing the workforce gaps*
- ◆ *evaluate results of strategies*
- ◆ *modify the strategies as needed*

Each year, the Department updates its analysis of workforce gaps in required competencies and projects future shortages. The Department completes its gap analysis annually during preparation of the HR Plan. Twice each year, the Department evaluates progress made using its performance measures. Detailed work and learning plans contain action plans to close competency gaps (e.g., training). Monitoring the work and learning plans helps the Department evaluate its ability to retain a complete workforce with the required competencies.

Each year, the Department identifies the changes it should make to its strategies based on the results achieved. The Department’s managers play an important role in deciding changes to priorities for the future. Employees also are encouraged to provide suggestions and comments on the current succession strategies.

The Department also analyzes risks and workforce gaps to help it modify its strategies. This includes analysis of individual employee development as well as Department-wide adjustments. However, the Department’s analysis of risks does not link risks to the Department’s objectives. As a result, it is more difficult to set priorities and revise strategies for timely action.

The Department told us that it plans to evaluate its succession management strategies based on outcomes. The new evaluation system

will help the Department to analyze the results of its HR Plan and modify its strategies as needed.

Selected references—succession management

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