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Main points

The Department of Agriculture and Food (Department) is responsible for 14 agencies with March 31 year-ends and two with December 31 year-ends.

The Department needs to review the accuracy of its payroll prior to paying employees to ensure that it approves all employees' pay in accordance with the law. Lack of an adequate review increases the risk that employees may be paid incorrect amounts.

The Department must keep adequate books and records so it is able to prepare accurate financial statements for the Pastures Revolving Fund. Furthermore, it continues to need to provide its staff with sufficient guidance on financial reporting.

Senior employees of Thomson Meats Ltd. need to file their employment contracts with the Clerk of the Executive Council to comply with the law.

Saskatchewan Crop Insurance Corporation has adequate processes to set premium rates under the Canada-Saskatchewan Implementation Agreement and *The Crop Insurance Act* except for the following. It needs to document its procedures for calculating premium rates, establish procedures to check the accuracy of the data and formulas used to calculate premium rates, and improve its internal auditor plan.

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, ranchers, suppliers, and processors to encourage higher value production and processing, and promote 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, 2007 year-ends and of Thomson Meats Ltd. for the year ended December 31, 2006. It contains the results of our audit of the rate setting process at Saskatchewan Crop Insurance Corporation. Also, the chapter provides an update on recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies. Each one has a March 31 year-end unless noted.

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 (December 31 year-end)
Pastures Revolving Fund
Prairie Agricultural Machinery Institute

¹ Saskatchewan Department of Agriculture and Food. (2006). *2006-07: Saskatchewan Provincial Budget Performance Plan: Saskatchewan Agriculture and Food*. Regina: Author. page 2.

Saskatchewan Agricultural Stabilization Fund (SASF)
Saskatchewan Crop Insurance Corporation (SCIC)
Thomson Meats Ltd. (December 31 year-end)

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

	<u>2007</u>	<u>2006</u>
	(in millions of dollars)	
Agriculture expenses by program:		
Crop insurance	\$ 228	\$ 153
Farm stability	165	280
Other	<u>144</u>	<u>79</u>
	<u>\$ 537</u>	<u>\$ 512</u>
Agriculture revenues by source:		
Federal Government	\$ 130	\$ 130
Producers' crop insurance premiums	85	105
Sales, services, fees, and other	<u>57</u>	<u>52</u>
	<u>\$ 272</u>	<u>\$ 287</u>

The Department's 2006-2007 Annual Report² contains information about the Department's revenues and expenses. Each of the special purpose funds and Crown agencies provides its financial statements to the Assembly each year. These are available in the Public Accounts 2006-07 compendium.³

Our audit conclusions and findings

Our Office worked with:

- ◆ KPMG LLP, appointed auditor for
 - Saskatchewan Agricultural Stabilization Fund
 - Saskatchewan Crop Insurance Corporation

² See Department website at <http://www.agriculture.gov.sk.ca> (22 Oct. 2007).

³ <http://www.finance.gov.sk.ca/paccts/paccts07/compendium/compintro.htm> (22 Oct., 2007)

- Crop Reinsurance Fund of Saskatchewan
- Thomson Meats Ltd.

- ◆ Meyers Norris Penny LLP, appointed auditor for Agricultural Credit Corporation of Saskatchewan

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.

In our opinion:

- ◆ **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**

Better control over employees' pay needed

The Department needs to better control employees' pay.

During the year, the Department reviewed its payroll costs during its review of monthly financial reports. However, the Department did not adequately review the accuracy of key payroll data for each pay period prior to paying employees. As a result, it did not approve employees' pay in accordance with *The Financial Administration Act, 1993*.

These weaknesses increase the risk that employees may be paid incorrect amounts.

- 1. We recommend that the Department of Agriculture and Food adequately review the payroll for accuracy prior to paying employees to ensure that all employees' pay is approved in accordance with *The Financial Administration Act, 1993*.**

Pastures Revolving Fund

Through the Pastures Revolving Fund, the Department operates and manages pastures, programs and services related to pasture and livestock management, and pasture use.

For the year ended March 31, 2007, the Fund had revenues of \$7.6 million, expenses of \$7.9 million, and held assets of \$4.1 million.

Financial reporting needs improvement

In 2006-07, the Department did not maintain adequate books and records to enable it to prepare accurate financial statements for the Pastures Revolving Fund.

When preparing financial statements, the Department relies on the preparation of separate working papers that support individual financial statement accounts. It uses financial information drawn from various sources including its Crown Land Management System and inventory and capital asset count sheets.

Consistent with prior years, the 2006-07 financial statements presented for audit contained significant errors. In total, these accounting errors caused the Fund's financial statements presented for audit to understate net income by nearly \$200,000, understate assets by \$157,000, and overstate liabilities by \$356,000. The Department corrected these errors.

Since our 2004 Report – Volume 3, we have recommended that the Department of Agriculture and Food provide written guidance to staff responsible for the Fund's financial reporting. The Standing Committee on Public Accounts reviewed this matter and agreed with our recommendation.

Proper guidance on financial reporting helps staff to keep accurate accounting records and prepare financial statements without errors. The existence of errors in financial reports may result in the Department making decisions based on inaccurate financial information. While the Department has made changes during the year to the Fund's Financial Manual, the manual is not yet complete. For example, the manual does not contain:

- ◆ significant accounting policies followed by the Fund and the procedures necessary to ensure financial reports are prepared in accordance with generally accepted accounting principles
- ◆ detailed administrative control procedures for all accounting systems to ensure transactions are accurately recorded

The Fund's financial reporting processes need to provide for an appropriate level of review of the financial statements together with the supporting schedules and working papers before they are submitted for audit. This will help ensure the financial statements are complete and accurate. When the Department identifies issues (such as significant errors in the financial statements), it should take steps to address the issues such as providing staff with further direction and training.

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

- 2. We recommend that the Department of Agriculture and Food maintain adequate books and records to enable it to prepare accurate financial statements for the Pastures Revolving Fund.**

Thomson Meats Ltd.

Thomson Meats Ltd. (TML) is a wholly-owned subsidiary of Agricultural Credit Corporation of Saskatchewan. TML is a federally-licensed, integrated meat processing facility providing a variety of fresh and processed food items. At December 31, 2006, it had revenues of \$3.6 million, expenses of \$3.9 million, and held assets of \$4.5 million.

Employment contracts need to be filed

Senior employees of Thomson Meats Ltd. did not file their employment contracts as required by *The Crown Employment Contracts Act*.

The Crown Employment Contracts Act states that the permanent head of a Crown agency and all employees that report to that permanent head must file a copy of their employment contracts with the Clerk of the Executive Council. During the audit, we found that senior employees of Thomson Meats Ltd. did not file their contracts.

- We recommend that senior employees of Thomson Meats Ltd. file their employment contracts with the Clerk of the Executive Council as required by *The Crown Employment Contracts Act*.**

Saskatchewan Crop Insurance Corporation

Saskatchewan Crop Insurance Corporation (SCIC) administers the Canada-Saskatchewan Crop Insurance Program. An Agreement between the Government of Canada (Canada) and the Government of Saskatchewan (Saskatchewan) outlines the terms of the program. Section 12 of *The Crop Insurance Act* (Act) authorizes SCIC to set the premium rates to cover crop insurance claims and a reasonable reserve against unforeseen losses. Saskatchewan, Canada, and the producers share the crop insurance costs.

The Agreement requires SCIC to set premiums at rates sufficient to make the crop insurance program self-sustaining over the long term. The Agreement includes actuarial guidelines that define "self-sustaining" as having a high probability of financial recovery in less than 25 years.

Sound processes to set premium rates help ensure all parties, i.e., producers, Saskatchewan, and Canada, pay their appropriate share of the program costs. Those processes would also help ensure SCIC sets premium rates in accordance with the Agreement and the Act. This would reduce the risk of non-compliance with the Agreement and helps maintain Canada's continued participation in paying for its share of the program.

Our objective and criteria

Our audit objective was to assess whether SCIC has adequate processes to set premium rates under the *Canada-Saskatchewan Implementation Agreement* (Agreement) and *The Crop Insurance Act* for the year ended March 31, 2007.

We did not assess if the guidelines for determining premium rates included in the Agreement are adequate to make the program self-sustaining or the actuarial soundness of the program.

To do this work, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

The table below sets out the criteria that we used for this audit. These criteria are based upon our research of the literature and audit reports detailed in Selected References. We discussed the criteria with SCIC's management. Management agreed that the criteria are reasonable and attainable.

Audit criteria

SCIC's processes to set premium rates that comply with the *Canada-Saskatchewan Implementation Agreement* (Agreement) and *The Crop Insurance Act*, should:

1. Collect and evaluate data

- 1.1. gather and maintain relevant data (e.g., crop yield, premiums, claims, and price data)
- 1.2. verify the accuracy and completeness of data (e.g., producers' yields)
- 1.3. maintain integrity of data (e.g., restrict access to data)

2. Adhere to agreed-upon rate setting practices

- 2.1. use best practices for setting rates (e.g., new crops, yield potentials)
- 2.2. set rates that are consistent with the Agreement and the *Act*
- 2.3. obtain regular actuarial certifications (e.g., premium rate setting methodologies, yield methodologies, program self-sustaining)

3. Monitor rates

- 3.1. report regularly to senior management and the Board about establishing, monitoring and evaluating rates
- 3.2. submit required reports to the Government of Canada
- 3.3. advise producers promptly of changes to rate setting methods and rates
- 3.4. evaluate processes for setting rates to ensure they comply with the *Agreement* (e.g., internal audit examination of rate setting processes)

Our conclusion

As we described earlier, our objective did not include assessing whether the adequacy of the guidelines for determining premium rates included in the Agreement are adequate to make the program self-sustaining or the actuarial soundness of the program.

We concluded that SCIC had adequate processes to set premium rates under the *Canada-Saskatchewan Implementation Agreement* and *The Crop Insurance Act* for the year ended March 31, 2007 except SCIC needs to:

- ◆ **document and approve all of its procedures for calculating premium rates**
- ◆ **establish and document procedures to check the accuracy of data and formulas used to calculate premium rates**
- ◆ **approve an internal auditor plan that includes follow up of the internal auditor's recommendations**

Key findings by criterion and recommendations

We describe below our key findings together with our expectations (*in italics*) for each criterion.

Collecting and maintaining data

We expected that SCIC would have processes to:

- ◆ *gather and maintain relevant data (e.g., crop yield, premiums, claims, and price data)*
- ◆ *verify the accuracy and completeness of data (e.g., producers' yields)*
- ◆ *maintain integrity of data (e.g., restrict access to data)*

SCIC has adequate processes to gather and maintain data. Its policies and procedures manual provides guidance to employees who gather data such as crop yields, crop price data, and premiums. Also, it provides written guidance to employees who verify the accuracy of producer yields and losses claimed. SCIC examines some claims files to determine whether its employees follow its processes to verify yield. SCIC also uses

its insurance computer system to identify producers with yield losses significantly higher than others in the same area.

SCIC maintains the data on its insurance system. The insurance system contains producer information such as name, address, land descriptions, crops insured, seeded acres, and claim payments.

SCIC has good general computer controls. Those controls help maintain complete and accurate insurance data. Employees conduct *ad hoc* reviews to ensure user access remains appropriate. SCIC could improve its processes by formalizing procedures to monitor access of users to its insurance system.

Adherence to agreed-upon rate setting practices

We expected that SCIC would:

- ◆ *use best practices for setting rates (e.g. new crops, yield potentials)*
- ◆ *set rates that are consistent with the Agreement and the Act*
- ◆ *obtain regular actuarial certifications (e.g., premium rate setting methodologies, yield methodologies, program self-sustaining)*

SCIC identifies program changes by seeking input from producers and producer associations and by monitoring programs offered by other provinces. For example, SCIC customer offices accumulate comments from producers in weekly regional manager reports. SCIC employees participate in national working groups such as the Production Insurance Working Group to discuss and analyze possible program changes. As the Agreement requires, SCIC seeks Agriculture and Agri-Food Canada's (AAFC), a Canadian government agency, input on all program changes. AAFC analyzes and approves all program changes and advises whether SCIC needs independent actuarial advice on the methodology for setting rates.

The Agreement and the Act set out the specifics of the crop insurance program. This includes crops that can be insured, the levels of coverage available, and required actuarial certifications. The Agreement requires an actuarial certification once every five years or upon significant changes to the program. The actuarial certification relates to the accuracy of the

methods (formulas) SCIC uses to determine premium rates, producer yields, and the long-term sustainability of the program.

SCIC has established formal processes to follow the guidelines for setting premium rates set out in the Agreement and obtaining the required actuarial certifications. SCIC compiles and gives the data to its actuary (compiled data) for assessing the soundness of the formulas to determine premium rates for each insurable crop. However, SCIC does not ensure the compiled data is accurate and complete. Nor does it ensure that the data the actuary used is what SCIC provided. This increases the risk that the actuarial assessment may not be correct.

Furthermore, SCIC calculates the insurance premiums using data, such as crop yields, indemnities, acreage insured, and its total loss exposure. SCIC gathers this information from its insurance computer system and electronically enters it into electronic spreadsheets. Management told us its actuary developed the spreadsheets containing the formulas several years ago and that there are manual adjustments to the formulas. These spreadsheets calculate premium rates by insurable crop using the data and the formulas.

One employee gathers (extracts) data from the insurance system and calculates all premium rates using the spreadsheets. SCIC's process does not require an independent review of the accuracy of the data extracted and the formulas used. Instead, management reviews a report that shows premium rates by crop type for the current and prior year and the percentage change in rates. This review is not adequate as it may not detect the entry of inaccurate data or inappropriate formulas. An independent detailed review would help ensure that SCIC is using appropriate formulas and data to calculate premium rates.

SCIC has documented some of its procedures for setting premium rates. However, it needs to complete the documentation of those procedures and formally approve them. For example, SCIC does not have documented procedures to verify that the formulas used are consistent with the requirements of the Agreement and the Act.

- 4. We recommend that Saskatchewan Crop Insurance Corporation document and approve all of its procedures for calculating premium rates.**

5. We recommend that Saskatchewan Crop Insurance Corporation establish and document procedures to check the accuracy of data and formulas used to calculate premium rates.

Rate monitoring

We expected that SCIC would:

- ◆ *report regularly to senior management and the Board about establishing, monitoring, and evaluating rates*
- ◆ *submit required reports to the Government of Canada*
- ◆ *advise producers promptly of changes to rate setting methods and rates*
- ◆ *evaluate processes for setting rates to ensure they comply with the Agreement (e.g., internal audit examination of rate setting processes)*

SCIC incorporates its planned projects to change the crop insurance program into its annual corporate business plan. Senior management and the Board approve the plan and receive quarterly updates on progress against the plan. Management obtains the required approval of the Board and Canada for changes to the insurance program before they implement them.

Senior management reviews proposed premium rates by crop type each year including a comparison to the past approved rates. The Board reviews and approves proposed premium rates. The Board also receives regular operational and financial reports showing the insurance premiums invoiced, collected, and the indemnities incurred.

To keep Canada informed about the results of the program and possible changes to it, an AAFC official attends SCIC's board of director's meetings. As well, SCIC submits regular reports to AAFC disclosing information relating to liability by crop type, acreage insured, premiums collected to date from producers, and indemnities incurred to date.

Producers who insured with SCIC in the prior year receive an information package that outlines changes to the insurance program and premium rates for the upcoming crop year. On its website and through radio and

producer magazines, SCIC communicates changes to the insurance program and premium rates. SCIC also gives training to its customer service representatives about the program and premium rate changes and provides producers with written material (i.e., reference guides) to help them decide on their insurance needs. Consistent with insurance industry standards, SCIC makes this information available approximately one month before producers must sign up for current year coverage.

To help ensure it complies with the Agreement, SCIC's internal auditor examined SCIC's processes for calculating the 2006 premium rates. The internal auditor made recommendations to improve the written guidance to employees who calculate the premium rates (e.g., steps involved in calculating rates, checklist for steps completed). At March 31, 2007, the Board had not received a report from either management or the internal auditor on what SCIC has done to address the internal auditor's recommendations. Management should report to the Board what it has done to address the internal auditor's recommendations. The Board should also ask the internal auditor if management has fully addressed its recommendations for improvement.

- 6. We recommend the Saskatchewan Crop Insurance Corporation Board of Directors approve an internal auditor plan that includes follow up of the internal auditor's recommendations.**

Selected references – processes to set premium rates

See Appendix 1.

Status of other outstanding recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented and are not discussed earlier in this chapter.⁴

⁴ For the definitions of the key terms used in the table, see Chapter 25 – Standing Committee on Public Accounts pages 398 to 399.

PAC REPORT YEAR ⁵	OUTSTANDING RECOMMENDATION	STATUS
Department of Agriculture and Food (Succession Planning)		
2007	PAC concurs: 11-5 that the Department of Agriculture and Food should analyze the impact of anticipated workforce competency gaps on its capacity to achieve its objectives.	Not implemented (as at March 31, 2006). A follow-up is planned for 2008.
Saskatchewan Crop Insurance Corporation		
2002	PAC concurs: 4-3 that the Saskatchewan Crop Insurance Corporation should improve the guidance it gives to the claim adjusters to enable them to identify suspicious claims; and further that the Saskatchewan Crop Insurance Corporation should also establish written rules and procedures for investigating suspicious claims.	Partially implemented (as at March 31, 2007). The Saskatchewan Crop Insurance Corporation continues to look at how it can improve its guidance.
2002	PAC concurs: 4-4 that the Saskatchewan Crop Insurance Corporation should ensure that adjusters leave clear evidence of work they have done to adjust or to verify claims.	Partially implemented (as at March 31, 2007). Saskatchewan Crop Insurance Corporation continues to improve the documentation of its adjusters' work.

Appendix 1 – Selected references – Saskatchewan Crop Insurance Corporation – processes to set premium rates

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⁵ PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

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<http://www.gao.gov/archive/1999/rc99123t.pdf>. (17 Jul. 2007).