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## Main points

The Ministry of Agriculture transferred the responsibility to operate the Provincial Dairy Lab from the Ministry to the Milk Control Board without legislative authority. If the Ministry wants to transfer the Dairy Lab to another agency, it must seek changes to the applicable legislation. Otherwise, it should resume operating the Dairy Lab directly.

Milk Control Board staff need a better understanding of generally accepted accounting principles to ensure they prepare accurate and reliable financial statements.

Saskatchewan Crop Insurance Corporation 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. Also, it needs better controls over access to its computer systems and data and over changes to computer systems used to calculate insurance premiums.

The Ministry needs to follow its established policies and procedures when it prepares the Pastures Revolving Fund's annual financial statements.

The Ministry has implemented our 2006 recommendation that it should analyze the impact of anticipated workforce competency gaps on its capacity to achieve its objectives.

The Ministry continues to need to complete a comprehensive identification of risks that could result from non-compliance with pesticide laws in each of the major categories that the Ministry regulates, i.e., sales, use, storage, transportation, and disposal. Also, it must adequately document its analysis of each of these risks.

## Introduction

The mandate of the Ministry of Agriculture (Ministry) is to foster a commercially viable, self-sufficient, and sustainable agriculture and food sector. Working with individuals, businesses, communities, and governments, the Ministry assists farmers, ranchers, suppliers, and processors to encourage higher value production and processing, and promotes sustainable economic development in rural Saskatchewan.<sup>1</sup>

This chapter contains the results of our audits of the Ministry and its special purpose funds and Crown agencies for the years ended December 31, 2007 and March 31, 2008. At the date of this report, we have not completed our audit of Milk Control Board's 2007 financial statements or Pasture Revolving Fund's 2008 financial statements. The chapter also contains the results of our follow-up of recommendations related to our past audits on the Ministry's succession planning and pesticide regulation.

The Ministry is responsible for the following agencies. Each one has a March 31 year-end unless noted.

Agricultural Credit Corporation of Saskatchewan (ACS)  
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)  
Pastures Revolving Fund  
Prairie Agricultural Machinery Institute  
Saskatchewan Agricultural Stabilization Fund (SASF)  
Saskatchewan Crop Insurance Corporation (SCIC)  
Thomson Meats Ltd. (December 31)  
Pension Plan for the Employees of Thomson Meats Ltd. (December 31)

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<sup>1</sup> Saskatchewan Department of Agriculture and Food. (2007). *2007-08: Saskatchewan Provincial Budget Performance Plan: Saskatchewan Agriculture and Food*. Regina: Author. p. 2.

The Ministry's 2007-2008 Annual Report contains information about the Ministry's revenues and expenses.<sup>2</sup> Each agency provides its financial statements to the Assembly each year. They are available in the Public Accounts 2007-08 compendium.<sup>3</sup>

### Financial overview

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

	<u>2008</u>	<u>2007</u>
	(in millions of dollars)	
Agriculture expenses by program:		
Crop insurance	\$ 243	\$ 228
Farm stability	127	165
Other	<u>150</u>	<u>144</u>
	<u>\$ 520</u>	<u>\$ 537</u>
Agriculture revenue by source:		
Federal Government transfers	\$ 138	\$ 130
Producers' crop insurance premiums	117	85
Sales, services, fees, and other	<u>113</u>	<u>57</u>
	<u>\$ 368</u>	<u>\$ 272</u>

### Audit conclusions and findings

Our Office worked with KPMG LLP, appointed auditor for SASF, SCIC, and Crop Reinsurance Fund of Saskatchewan and Meyers Norris Penny LLP, appointed auditor for ACS, Thomson Meats Ltd., and Pension Plan for the Employees of Thomson Meats Ltd. For these 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](http://www.auditor.sk.ca/rrd.html)). For the related agency, our Office and its appointed auditor formed the opinions below.

<sup>2</sup> See Ministry website at [www.agriculture.gov.sk.ca](http://www.agriculture.gov.sk.ca) (26 September 2008).

<sup>3</sup> <http://finance.gov.sk.ca/paccts/paccts08/compendium/compintro.htm> (26 September 2008).

In our opinion for the year ended on or before March 31, 2008:

- ♦ the Ministry and its agencies had adequate rules and procedures to safeguard public resources except for matters reported in this chapter
- ♦ the Ministry and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for matters reported in this chapter
- ♦ the financial statements of the Ministry's agencies are reliable except we have not completed the audits of Milk Control Board's or Pastures Revolving Fund's financial statements

## Unauthorized transfer of the Provincial Dairy Laboratory

The Ministry of Agriculture transferred the responsibility to operate the Provincial Dairy Laboratory (Dairy Lab) from the Ministry to the Milk Control Board without legislative authority. The Board has operated the Dairy Lab without the necessary authority since the transfer.

Under *The Animal Products Act* and related regulations, the Ministry is responsible for public health related to animal products (e.g., quality of milk supply). The Ministry established the Dairy Lab to carry out this responsibility. The Dairy Lab provides regulatory inspection and licensing services, as well as administration and enforcement of dairy regulations.<sup>4</sup> It also provides milk quality testing for producers and processors and milk composition analysis for the Milk Control Board.

In April 2006, the Ministry transferred the Dairy Lab operations, together with all related assets and staff, to the Board. The Board does not have authority under *The Milk Control Act, 1992* to protect public health or to regulate milk quality. The Board advised the Ministry that it lacked the necessary authority to operate the Dairy Lab. But, the Ministry said that it

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<sup>4</sup> Relevant dairy regulations made under *The Animal Products Act* are *The Dairy Producer Regulations, 1995*; *The Dairy Manufacturing Plant Regulations*; *The Dairy Product Grading Regulations*; and *The Milk Transportation Regulations*. Relevant dairy regulations made under *The Public Health Act* are *The Milk Pasteurization Regulations*. The Minister of Health is assigned responsibility for this Act.

would work with the Board and dairy industry to seek changes to the regulatory framework under which the Dairy Lab operates to provide the necessary authority. Based on this understanding, the Board operated the Lab.

At October 1, 2008, the related legislation has not changed. Consequently, the Board spent about \$600,000 from April 1, 2006 to December 31, 2007 on the Dairy Lab's activities without authority.

Under the current legislation, the Ministry does not have the power to delegate or transfer its responsibilities related to the Dairy Lab. If the Ministry wants to transfer the Dairy Lab to another agency, it must seek changes to the applicable legislation. Otherwise, it should resume operating the Dairy Lab directly.

1. **We recommend the Ministry of Agriculture comply with the law or seek changes to the law to allow the transfer of its regulatory responsibilities carried out by the Provincial Dairy Laboratory to another agency.**

## **Milk Control Board**

### ***Background***

The Milk Control Board (Board) regulates the production, supply, pricing, and sale of milk. Working with producers, processors, consumers, and Government, the Board provides producers with the opportunity to obtain a fair return while providing consumers with an adequate supply of high quality dairy products at reasonable prices.<sup>5</sup>

As noted above, the Board has operated the Provincial Dairy Lab without the necessary authority since the transfer from the Ministry.

### ***Better understanding of accounting standards required***

Staff need a better understanding of generally accepted accounting principles (GAAP) to ensure they prepare accurate and reliable financial statements.

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<sup>5</sup> Government of Saskatchewan, 2006 Annual Report, Saskatchewan Milk Control Board, p. 3.

The Board must prepare financial statements in accordance with GAAP. Staff need sufficient knowledge and understanding of GAAP to prepare GAAP financial statements. Also, the Board needs a sufficient understanding of GAAP to oversee the preparation of accurate and reliable financial statements.

During the audit, we noted staff had difficulties preparing financial statements and addressing accounting issues.

- 2. We recommend the Milk Control Board provide its staff with support and training to increase their understanding of accounting standards.**

## **Saskatchewan Crop Insurance Corporation**

### ***Background***

The Saskatchewan Crop Insurance Corporation (SCIC) 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 2007 crop year, SCIC insured 25.8 million seeded acres involving 27,146 contracts.<sup>6</sup>

SCIC's 2008 Annual Report includes its audited financial statements.<sup>7</sup> Those financial statements report that in 2007-08, SCIC had revenues of \$210.2 million, expenses of \$170.1 million and total assets of \$275.2 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 2007-08,

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<sup>6</sup> Government of Saskatchewan, 07-08 Annual Report, Saskatchewan Crop Insurance Corporation, pp 3-5.

<sup>7</sup> Available at [www.saskcropinsurance.com](http://www.saskcropinsurance.com).

the Fund had revenue of \$42.4 million and an accumulated deficit of \$72.3 million.

### ***Premium rate process needs strengthening***

In our 2007 Report – Volume 3, we reported the results of our audit of SCIC's processes to set premium rates that comply with the *Canada-Saskatchewan Implementation Agreement* and *The Crop Insurance Act*. We recommended that:

- ♦ Saskatchewan Crop Insurance Corporation document and approve all its procedures for calculating premium rates
- ♦ Saskatchewan Crop Insurance Corporation establish and document procedures to check the accuracy of data and formulas used to calculate premium rates
- ♦ the Board of Directors of Saskatchewan Crop Insurance Corporation approve an internal auditor plan that includes follow-up of the internal auditor's recommendations

On June 16, 2008, the Standing Committee on Public Accounts agreed with our recommendation.

As part of our audit for the year ended March 31, 2008, we asked management for an explanation of significant changes in annual revenues and expenses. In analyzing the increase in premium revenue, management determined it had overbilled producers, the Ministry (General Revenue Fund), and Canada by \$500,000. SCIC has corrected the rates and plans to refund the overbilled amount.

SCIC has not implemented the recommendations. Management told us it plans to document and approve all its procedures for calculating premium rates. Also, it plans to establish and document procedures to check the accuracy of data and formulas used to calculate premium rates. Management also told us that the Board of Directors, in June 2008, approved the internal auditor's plan which includes following up on the internal auditor's recommendations to verify that they have been properly addressed.



### ***Better processes required over its computer systems***

SCIC needs better processes over making changes to its computer systems used to calculate insurance premiums and pay out insurance claims. SCIC also needs to control access to its computer systems and data.

To consistently make computer changes properly, agencies document, test, and approve changes before use. Agencies also determine the access staff require to computer systems and data and monitor that the access remains appropriate.

SCIC has documented some procedures for making changes to its computer systems. However, employees do not always follow these procedures. Employees do not always document the computer systems changes, obtain the approval for the change, and independently test the change to ensure it works properly before it is used.

SCIC has documented some procedures for assigning staff access to computer systems and data and for monitoring the access. However, SCIC does not perform a regular review of changes made by those employees who have complete access to the computer systems and all data. Also, for those employees, SCIC does not monitor that they regularly change their passwords. For some of its users, there is no unique identifier<sup>8</sup> to know which user made the change or accessed the computer systems and data. Also, even though SCIC requires its users to sign a security form indicating that they are aware of the security requirements and agree to follow them, not all employees have signed the forms.

Without adequate processes over changes and access to its computer systems, there is an increased risk of incorrect premiums and claim payments. Also, there is an increased risk that data is not properly secured and personal information may be lost.

### **3. We recommend the Saskatchewan Crop Insurance Corporation establish adequate processes for making changes to its computer system.**

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<sup>8</sup> A unique identifier is usually a number that exists only once thus uniquely identifying an entry into the computer system.

4. **We recommend the Saskatchewan Crop Insurance Corporation establish adequate processes to grant and monitor employee access to its computer systems and data.**

## **Pastures Revolving Fund**

### ***Background***

The Pastures Revolving Fund establishes, operates, manages, and maintains pastures, and provides programs and services related to pasture and livestock management and to developing, protecting, and promoting the environmental, social, and economic use of pastures.<sup>9</sup>

For the year ended March 31, 2008, the Fund had revenues of \$7.6 million, expenses of \$7.6 million and total assets of \$4.1 million

### ***Financial reporting needs improvement***

The Ministry of Agriculture did not follow its established policies and procedures when it prepared the Pastures Revolving Fund's 2008 annual financial statements.

In 2008, the Ministry improved control with written policies and procedures for maintaining the Fund's accounting records and preparing annual financial statements. The process requires a review of the financial statements that is independent of their preparation. This step is essential as it helps to ensure that staff follow expected processes and allows management to take appropriate action before the statements are submitted for audit.

During the audit, we noted that the Ministry did not follow these procedures. For example, the Ministry maintains accurate records of the Fund's capital asset transactions and the supplies inventory held at each of the Fund's 56 pastures. However, management responsible for preparing the Fund's financial statements did not review this information or use it to prepare the annual financial statements. The financial statements submitted for audit contained several errors related to capital assets and supplies inventory.

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<sup>9</sup> Government of Saskatchewan, *Pastures Revolving Fund Financial Statements*.

Management needs to carefully review the Fund's accounts and supporting working papers when preparing the Fund's draft financial statements. When management identifies errors made or processes not followed, it should take corrective steps. Such steps may include providing staff with additional direction and training or support.

- 5. We recommend the Ministry of Agriculture follow its established policies and procedures when preparing the Pastures Revolving Fund's financial statements.**

## **Succession management—a follow-up**

### ***Background***

Succession management refers to processes that help agencies plan how to have enough of the right employees to achieve their objectives. It requires agencies to project the skills required and estimate the supply of such skills in the future. Sometimes agencies must find alternatives or risk not being able to meet their objectives.

The Ministry has about 600 employees.<sup>10</sup> The Ministry's main objectives relate to sustainable agriculture production and processing.<sup>11</sup> In general, its objectives include food safety, diversifying agricultural products, environmental stewardship, and increasing the total value of goods and services produced by the agriculture and food industries. To be effective, the Ministry needs employees with technical skills that will help to reduce risks for the agricultural industry.

In our 2006 Report – Volume 3 (Chapter 11), we concluded that at June 30, 2006, the Ministry of Agriculture had adequate systems for succession management except for the processes it used to analyze the impact of workforce gaps on its ability to achieve its objectives. We recommended that the Ministry analyze the impact of anticipated workforce competency gaps on its capacity to achieve its objectives. On May 8, 2007, the Standing Committee on Public Accounts agreed with our recommendation.

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<sup>10</sup> Based on February 2008 statistics of the Ministry of Agriculture and the Public Service Commission. Number includes full-time, part-time, labour-service, and term appointments.

<sup>11</sup> Government of Saskatchewan. *Agriculture Ministry Overview, Goals and Objectives*. [www.agriculture.gov.sk.ca](http://www.agriculture.gov.sk.ca) (09 October 2008).

As of September 30, 2008, the Ministry has implemented this audit recommendation. Below we set out the Ministry's key actions to implement this recommendation. Human resource processes used by the Ministry's management include working with the Public Service Commission (PSC) in key areas.<sup>12</sup>

### ***Analyzing the impact of competency gaps on objectives***

The Ministry now monitors the specific skills and occupational groups most closely related to its risks and its capacity to achieve its objectives.

PSC's 2007-08 *Human Resource Planning Guidelines* directs ministries to project the competencies they require over the next five years to achieve their objectives and mandate. Using information obtained from PSC, the Ministry projected its need for technical skills related to its risks and objectives.

The Ministry identified 21 occupational groups with skills important to achieving its objectives that are difficult to recruit and retain. The Ministry analyzed the proportion of employees projected to retire by work area. It found, for example, that 66% of its farm stress-line employees and 33% of its agri-business specialists could retire by 2010. By analyzing projected retirements by occupational groups, the Ministry projected the dates when shortages of critical technical skills would be most severe.

The Ministry found that three of its branches could face a serious shortage of technical skills by about 2010 (i.e., irrigation, crop and livestock development). It identified nine critical technical skills in short supply within the Ministry and in the agriculture and other sectors. Its most critical workforce shortages relate to civil engineering, insect and pest management, irrigation and water resource technology, and plant diseases. For example, the Ministry employs staff where there are as few as four similar specialists across Canada. With few potential replacements, the Ministry is considering alternative ways to achieve its strategic direction. Such analysis strengthens the Ministry's capacity to find solutions before workforce shortages prevent the Ministry from achieving its objectives.

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<sup>12</sup> In late 2007, the Government centralized human resource services for ministries (including responsibility for succession management) within the Public Service Commission.

## Pesticide regulation—a follow-up

### ***Background***

The Ministry of Agriculture is responsible for regulating the sale, use, storage, transportation, and disposal of registered pesticides in both agricultural and non-agricultural settings.

In our 2007 Report – Volume 1 (Chapter 2), we concluded that for the 12-month period ending January 31, 2007, the Ministry had adequate pesticide regulation processes except it had not done an overall risk analysis to guide its activities. As a result, its monitoring and enforcement activities may not focus on areas with higher risks. We made two recommendations set out in italics below. On June 16, 2008, the Standing Committee on Public Accounts agreed with our recommendations.

At September 30, 2008, the Ministry has made progress towards addressing these recommendations but more work remains.

The next section explains our recommendations and highlights the progress the Ministry has made towards implementing them.

### ***Risk identification and analysis***

In our 2007 audit, we noted that without assessing and documenting identified risks, the Ministry's inspection activities may not be sufficient to detect non-compliance with pesticide control laws and reduce the related risk of human or environmental harm. We said the Ministry needed to analyze the risks associated with monitoring and enforcing compliance with pesticide control laws, prioritize those risks, and document the strategy to address those risks.

*We recommended that the Ministry:*

- ◆ *formally analyze the risks that licensees and exempt persons are not following pesticide control laws*
- ◆ *document its strategy to address identified risks associated with monitoring and enforcing compliance with pesticide control laws*

In 2008, the Ministry's Regulatory Services Unit (Unit) took training related to enterprise risk management. This training covered the

principles of identifying risks, analyzing risks, and using assessments to design suitable action plans.

The Unit used this training to initiate a risk identification process during its strategic planning sessions as well as at its mid-year meeting. At these meetings, the Unit identified some risks, ranked them by probability of occurrence and severity of impact, and started to develop a preliminary plan to address these risks. However, more work is required. The Unit needs to complete a comprehensive identification of risks that may result from non-compliance with pesticide laws in each of the major categories that the Ministry regulates, i.e., sales, use, storage, transportation, and disposal. For each category, the Unit needs to identify the risks that are related to the particular products, locations, and circumstances involving pesticides that pose a threat to human health and the environment (i.e., land, air, and water). The Unit also needs to document the risks identified.

While the Unit has assigned a priority ranking to the risks it has identified so far, it has not documented an analysis of each risk assessment that supports the conclusions reached. An important part of the analysis of each risk is to retain sufficient documentation as a record of the reasons for each assessment. The Unit needs to prepare adequate documentation of the analysis of each risk.

As part of the Unit's risk identification process, the Unit started to note some potential actions to mitigate areas of risk and has acted on some of them. For example, it is reviewing the pesticide control regulations to improve the regulatory framework and bring it up to date. As the Unit's risk identification and analysis becomes more robust, so should its documentation of the strategies it is designing to reduce those risks.