

Agriculture

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Main points

The Ministry of Agriculture (Agriculture) needs to collect better information on petroleum and natural gas leased land. This will help Agriculture assess and collect all public money due. Since 2007, based on Agriculture's work to July 2010, it estimated that it undercharged lessees \$600,000 for surface land leases.

Agriculture needs adequate information technology (IT) processes in the following areas: preparing an IT plan, maintaining a disaster recovery plan for critical IT systems, monitoring the adequacy of IT services handled by the Information Technology Office, and removing staff's access to IT systems promptly when no longer needed. Adequate IT processes will help Agriculture to keep its IT systems and data confidential and available and to maintain the integrity of its data.

Agriculture needs to reconcile its detailed records to its financial records so that financial information it uses for decision-making is always accurate. Also, it needs to better document the basis for its significant accounting estimates to help ensure it produces reasonable estimates for decision-making.

Agriculture also needs to follow its processes so that it prepares accurate financial statements for the Saskatchewan Agricultural Stabilization Fund.

Introduction

The purpose of the Ministry of Agriculture (Agriculture) is to enable a prosperous market-driven agricultural industry through a supportive legislative framework, policies, and programs and services.¹

Special purpose funds and Crown agencies

At March 31, 2010, Agriculture was responsible for the following special purpose funds and Crown agencies. Each one has a March 31 year-end unless otherwise noted.

Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Agri-Food Council
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
Saskatchewan Crop Insurance Corporation
Thomson Meats Ltd. (December 31)
Pension Plan for the Employees of Thomson Meats Ltd. (December 31)

Financial overview

For the year ended March 31, 2010, the Government's total agricultural expenses were \$628 million and its agricultural-related revenues were \$725 million. Exhibit 1 sets out expenses by program and revenues by source as reflected in the Government's 2009-10 Summary Financial Statements.

¹ Ministry of Agriculture, Ministry Plan for 2009-10, p. 1.

Exhibit 1—Government’s agricultural expense and revenue

	<u>2010</u>	<u>2009</u>
	(in millions of dollars)	
Agriculture expense by program:		
Crop Insurance	\$ 382	\$ 346
Farm Stability	181	131
Other	<u>65</u>	<u>250</u>
	<u>\$ 628</u>	<u>\$ 727</u>
Agriculture revenue by source:		
Federal Government	\$ 344	\$ 195
Producers’ Crop Insurance Premiums	179	188
Sales, Services, Fees and Other	<u>202</u>	<u>208</u>
	<u>\$ 725</u>	<u>\$ 591</u>

During 2009-10, Agriculture incurred expenses of \$393 million (2009-\$424 million) and had revenues of \$160 million (2009-\$149 million). Agriculture’s annual report² provides further detail including reasons for differences from its approved budget.

Audit conclusions and findings

This chapter contains the results of our audits of Agriculture and its agencies with years ended March 31, 2010.

Our Office worked with KPMG LLP, appointed auditor for Saskatchewan Agricultural Stabilization Fund, Saskatchewan Crop Insurance Corporation, and Crop Reinsurance Fund of Saskatchewan and Meyers Norris Penny LLP, appointed auditor for Agricultural Credit Corporation of Saskatchewan. For these agencies, we used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.³ For the related agencies, our Office and its appointed auditor formed the opinions below.

² See www.finance.gov.sk.ca/PlanningAndReporting/2009-10/Agriculture2009-10AnnualReport.pdf for Agriculture’s 2009-10 Annual Report.

³ This report is available on our website at www.auditor.sk.ca/rrd.html.

In our opinion, for the year ended March 31, 2010:

- ◆ **Agriculture and its agencies had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**
- ◆ **Agriculture and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter**
- ◆ **the financial statements of the agencies are reliable**

Need to charge for all uses in surface leases

Agriculture did not collect sufficient information to know whether it assesses the correct surface lease rate on petroleum and natural gas leases.

For the year ended March 31, 2010, Agriculture recorded approximately \$27 million in lease revenue from petroleum and natural gas surface leases. At March 31, 2010, Agriculture had made approximately 6,500 petroleum and natural gas leases.

We expected Agriculture would have processes to identify approved changes in lease rates, update its computer system with approved lease rates, collect sufficient information on land usage to charge appropriate rates, and assess lessees based on appropriate lease rates.

Agriculture has written guidance for identifying changes in lease rates. It recognizes that *The Provincial Lands Regulations* (Regulations) sets different surface lease rates for different land use or situations (e.g., for cultivated land, pasture land, land with battery sites⁴ or roads).⁵ It updates its computer system with these approved rates. However, it does not collect sufficient information about land use or situations. For example, it

⁴ *The Surface Rights Acquisition and Compensation Act* defines a battery site as that portion of the surface of land, other than a well site or roadway, required for access to and to accommodate equipment and storage tanks necessary to measure, separate or store the fluids, minerals and water, or any of them, from wells.

⁵ *The Provincial Lands Regulations*, Schedule Six – Surface lease fees and rentals.

does not have complete information on the number and age⁶ of battery sites located on leased lands. It also does not have processes to know when lessees change land use or situations (e.g., add a road or additional wells). Without this information, Agriculture does not know if it is charging the correct surface lease rate.

Since January 2010, Agriculture has started to identify the number of battery sites and when they were created. At July 2010, Agriculture had not completed its work. Since 2007, based on work to date, Agriculture estimated that it had undercharged lessees \$600,000 for surface land leases.

Without processes to collect information about lessees' use of petroleum and natural gas leased land and battery sites, Agriculture cannot assess and collect all public money due.

- 1. We recommend that the Ministry of Agriculture develop processes to collect sufficient information on petroleum and natural gas leased lands to enable it to charge the correct surface lease rates as set out in *The Provincial Land Regulations*.**

Need to strengthen information technology processes

Agriculture did not have adequate processes over its information technology (IT) in the following areas:

- ◆ an IT plan
- ◆ disaster recovery plan for critical IT systems
- ◆ monitoring the adequacy of IT services handled by the Information Technology Office (ITO)
- ◆ timely removal of staff's access to IT systems when no longer needed (e.g., upon departure or change in roles)

During 2009-10, Agriculture used about 50 different IT systems to deliver its services. These include systems to: process and prepare financial information, track land and its use, record applications from producers for training programs, record agricultural research projects, and regulate various permits (e.g., pesticide applicators). In some of its IT systems

⁶ Since 2007, the amended *The Provincial Lands Regulations* created a separate rate for battery sites.

Agriculture keeps personal and confidential information such as social insurance numbers and producer income tax information.

Agriculture received the following IT services from ITO under a service agreement:

- ◆ acquisition and maintenance of infrastructure
- ◆ client support
- ◆ applications development and project management services

We expected that Agriculture would maintain a written IT plan that sets out its IT objectives linked to its IT strategic objectives, the threats and risks it faces for its IT systems and data, how it plans to meet its IT objectives and the resources required. We also expected that Agriculture would have processes to keep its systems and data confidential and available, and to maintain integrity of data processed. For systems managed by ITO, Agriculture's service agreement with ITO would set out the responsibility of each party; and it would actively monitor ITO's compliance with the terms of its service agreement.

Agriculture uses an IT committee (with senior management representation) to monitor Agriculture's IT plans and discuss IT issues. However, it does not have a written plan that sets out its objectives, the risks faced, plans to meet its objectives, and the resources required. Without a written IT plan, Agriculture may not fully recognize or address threats and risks to its IT systems, allocate sufficient resources, or meet its IT objectives.

2. We recommend that the Ministry of Agriculture prepare a written information technology plan.

Agriculture has developed its own disaster recovery plan (DRP) for one of its critical IT systems, the Crown Land Management System. However, Agriculture has not tested this DRP and thus does not know if it will work. It has not developed a DRP for its other critical IT systems (e.g., the Livestock Information Management System). Also, Agriculture's service agreement with ITO does not adequately address disaster recovery. As a result, it does not know whether ITO can restore the systems and data in sufficient time to meet its requirements in the event of a disaster. Without an adequate disaster recovery plan, Agriculture may not be able to provide required services.

3. We recommend that the Ministry of Agriculture have tested disaster recovery plans for its critical computer systems.

Agriculture uses an IT committee to monitor the services received from ITO. This Committee provides ITO with direction about Agriculture’s IT plans and discusses IT issues. As expected under the service agreement, Agriculture receives, reviews, and follows up issues (if any) noted on reports from ITO (e.g., Ministry IDS/Firewall report). However, Agriculture did not request and ITO did not provide any assurance that ITO’s controls operate effectively. For example, Agriculture does not receive from ITO our report on the adequacy of ITO’s processes to maintain client information technology systems and data.⁷ Without receiving such information, Agriculture does not know whether its systems and data administered by ITO are at risk.

4. We recommend that the Ministry of Agriculture obtain assurance from the Information Technology Office on the operating effectiveness of Information Technology Office’s controls over its client systems and data and assess the impact of deficient controls on Agriculture’s operations.

Although Agriculture has adequate written procedures for changing staff access to its computer systems and data, staff did not always follow them. During the audit, we noted that staff did not remove promptly access of terminated staff to computer systems. Without following its established procedures for removing user access, Agriculture cannot ensure that only authorized individuals have access to its computer systems and data. This increases its risk of loss of public money and inappropriate access to confidential information.

5. We recommend that the Ministry of Agriculture follow its procedures for making timely changes to computer user access.

Financial records need reconciling

Agriculture did not properly reconcile its detailed records to its financial records.

⁷ Each year, our Office assesses the adequacy of ITO’s controls to protect the confidentiality, integrity, and availability of client information technology systems and data.

Agriculture has significant assets, liabilities, revenues, and expenses (e.g., land net book value of \$70 million, total accounts payable of about \$200 million). Because of the volume of transactions and complexity of certain programs, Agriculture uses separate accounting systems to process and record financial activity.

We expected Agriculture to require staff to reconcile periodically amounts recorded in the detailed financial records to amounts recorded in MIDAS (its general ledger). We expected a second person would review the accuracy and completeness of these reconciliations. These processes would make sure its financial records are complete and accurate.

We found that Agriculture has adequate written procedures requiring staff to reconcile, each month, detailed records to financial records for such items as land transactions and amounts owing to others. This process requires staff independent of preparation to review the reconciliation.

During the year, Agriculture staff did not follow these procedures. Staff did not properly reconcile its financial records (MIDAS) to its detailed records or source documents in the following two areas:

- ◆ land transactions recorded in its land system

At March 31, 2010, Agriculture did not record about \$1.8 million of gains on sale of land in its land system or in its financial records (MIDAS). Management corrected MIDAS. After further review, Agriculture could not explain \$800,000 of gains on land sales recorded in MIDAS but not in its land system.

- ◆ program costs for its share of the farm and ranch water infrastructure program

At March 31, 2010, Agriculture did not record \$2.8 million for the amounts owed to the Saskatchewan Agricultural Stabilization Fund for this program.

Not following processes to reconcile detailed records to financial records properly increases the risk of incorrect financial information used for decision-making.

- 6. We recommend that the Ministry of Agriculture follow its procedures for reconciling its detailed records to its financial records.**

Accounting estimates need strengthening

In our 2009 Report – Volume 3, we recommended Agriculture consistently document assumptions and analysis when making significant accounting estimates. On June 25, 2010, the Standing Committee on Public Accounts (PAC) agreed with our recommendation. We continue to make this recommendation.

Agriculture's significant accounting estimates at March 31, 2010 include the following:

- ◆ uncollectible receivables of \$12 million (\$9.2 million - March 31, 2009)
- ◆ amounts due from the Federal Government for its share of business risk management programs of \$2.7 million (\$4 million - March 31, 2009)
- ◆ amounts owed to the Federal Government for business risk management programs (i.e., AgriStability⁸) of \$85.8 million (\$140 million - March 31, 2009) and related expense of \$96.9 million (\$118.1 million - March 31, 2009)
- ◆ permanent impairment in the value of its land of \$0 (\$8.1 million - March 31, 2009)

We expected Agriculture to keep clear documentation (e.g., of methods used, supporting data, key assumptions), use a consistent method to make its estimate each year, and have an individual, independent of preparation of the estimate, review the reasonableness of the estimate and document the results of this review. Clear documentation facilitates review and efficient future revisions.

We found that Agriculture did not always keep clear documentation of the method used as the basis for its estimates, assumptions used to make its estimates, or review of its estimates.

⁸ AgriStability is a business risk management program designed to provide financial support when producers incur large financial losses. <http://www.saskcropinsurance.com/agristability/program>. (accessed on July 30, 2010).

For example, for its estimate of expenses and the amounts owed to the Federal Government for AgriStability, Agriculture had limited documentation supporting its review of the key assumptions (e.g., expected producer production, crop prices, expenses, producer participation) used to support its estimates and the method used to calculate these estimates. At March 31, 2010, Agriculture adopted the Federal Government's estimate of AgriStability costs as the basis of its estimate.

Not documenting the basis for significant accounting estimates increases the risks of: making unreasonable estimates, and producing incorrect information for decision-making.

Unauthorized transfer of the Provincial Dairy Laboratory

Since our 2008 Report – Volume 3 (Chapter 3), we recommended Agriculture comply with the law or seek changes to the law to allow the transfer of its regulatory responsibilities carried out by the Dairy Lab to another agency. On December 8, 2008, PAC agreed with our recommendation.

Under *The Animal Products Act* and related regulations, Agriculture is responsible for public health related to animal products including the quality of milk supply. Agriculture established the Dairy Lab to carry its responsibility related to the milk supply. In 2006, Agriculture transferred the responsibility to operate the Provincial Dairy Laboratory (Dairy Lab) from Agriculture to the Milk Control Board without proper legislative authority. In February 2010, Agriculture closed the Dairy Lab. Consequently, the Board spent about \$1.5 million from April 1, 2006 to February 2010 on the Dairy Lab's activities without proper authority.⁹

On May 20, 2010, *The Milk Control Repeal Act* (Repeal Act) received royal assent and came into effect on October 1, 2010. The Repeal Act gives Cabinet authority to transfer to a milk marketing board any assets, liabilities, contracts, and personal property of the Milk Control Board.

Also, *The Miscellaneous (Animal Products Act) Repeal Regulations, 2010* (Repeal Regulations) came into effect on the same date as the Repeal

⁹ The Milk Control Board entered into an agreement in January 2010 with a private laboratory to complete testing of milk.

Act. The Repeal Regulations removes Agriculture’s responsibility to regulate the licensing of dairy producers, milk transport operators, and graders or testers of milk.¹⁰

Saskatchewan Agricultural Stabilization Fund

Background

Agriculture administers the Saskatchewan Agricultural Stabilization Fund (Fund). The Fund reports the transactions of the following programs.

The New Crops Insurance Program
The Wildlife 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 Specified Risk Material Management Program (SRM)
Farm and Ranch Water Infrastructure Program 2008 & 2009 (FRWIP)

The Fund’s financial statements for the year ended March 31, 2010 report revenues of \$36.4 million and expenses of \$35 million. The financial statements also report net financial assets of \$24.9 million at March 31, 2010.

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 the Fund must use all money paid into it for the purposes of the programs. In addition, Agriculture 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 income earned on advances, which the Fund may keep.

¹⁰ *The Miscellaneous (Animal Products Act) Repeal Regulations, 2010 repeals The Dairy Producers Regulations, 1995, The Milk Transportation Regulations and The Dairy Product Grading Regulations.*

Need to follow financial reporting established processes

In our 2009 Report – Volume 3, we recommended that Agriculture follow its established processes for preparing accurate year-end financial statements for the Fund. On June 25, 2010, PAC agreed with our recommendation.

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.

Agriculture recorded more than the assistance owing to others such as producers and operators of slaughter facilities in the Fund's financial statements for the year ended March 31, 2010. The financial statements presented for audit overstated the SRM program expenses by \$0.4 million.

Agriculture corrected the Fund's year-end financial statements when informed of the errors. Incorrect financial reports increase the risk of inappropriate or incorrect financial decisions.

We continue to recommend that the Ministry of Agriculture follow its established processes for preparing accurate year-end financial statements for the Fund.

Improper use of public money

During the year, Agriculture's controls detected a misuse of public money in the FRWIP.

A third party vendor was building dugouts for producers and issuing receipts for more than the price of the work done. The producers submitted these receipts to Agriculture as expenses eligible for 50% reimbursement under the FRWIP. As a result, the producers, using this vendor, received more money than they were entitled to under the program.

Agriculture is investigating and has asked all identified producers to pay back the ineligible portion of the grant. Agriculture told us that as of August 18, 2010, it has uncovered overpayments for 13 producers for a

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total of \$20,290. Of this total, \$11,538 has been repaid. Agriculture has not completed its investigation.

Agriculture has since changed its processes to include asking producers to submit cancelled cheques or other proof of payment.

Status of previous recommendations of the Standing Committee on Public Accounts

The following exhibit provides an update on the recommendations previously made by PAC that are not yet implemented and are not discussed earlier in this chapter.¹¹

Exhibit 2

PAC REPORT YEAR ¹²	OUTSTANDING RECOMMENDATION	STATUS
Ministry of Agriculture (Regulating Pesticides)		
2009	PAC concurs: 2-1 that the Ministry of Agriculture formally analyze the risks that licensees and exempt persons are not following pesticide control laws.	Partially implemented (as at March 31, 2010). We plan to do a follow-up in 2012.
2009	PAC concurs: 2-2 that the Ministry of Agriculture document its strategy to address identified risks associated with monitoring and enforcing compliance with pesticide control laws.	Partially implemented (as at March 31, 2010). We plan to do a follow-up in 2012.
Saskatchewan Crop Insurance Corporation (Setting Premium Criteria)		
2009	PAC concurs: 3-4 that the Saskatchewan Crop Insurance Corporation document and approve all of its procedures for calculating premium rates.	Partially implemented (as at March 31, 2009). We plan to do a follow-up in 2012.

¹¹ For the definitions of the key terms used in the exhibit, see Chapter 24 – Standing Committee on Public Accounts.

¹² “PAC Report Year” refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

PAC REPORT YEAR ¹²	OUTSTANDING RECOMMENDATION	STATUS
2009	PAC concurs: 3-5 that the Saskatchewan Crop Insurance Corporation establish and document procedures to check the accuracy of data and formulas used to calculate premium rates.	Partially implemented (as at March 31, 2009). We plan to do a follow-up in 2012.
2009	PAC concurs: 3-6 that the Saskatchewan Crop Insurance Corporation Board of Directors approve an internal auditor plan that includes follow up of the internal auditor's recommendations.	Partially implemented (as at March 31, 2009). We plan to do a follow-up in 2012.

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