Agriculture and Forestry

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Agriculture and Forestry in this report.

AGRICULTURE FINANCIAL SERVICES CORPORATION

Recent Office of the Auditor General audit communications with AFSC—see below.

There are six new recommendations to AFSC in this report.

- AFSC needs to improve its lending program—see page 21.
- AFSC needs to:
    - ensure compliance with established policies—see page 75.
    - strengthen processes to report senior executives' expenses to the board of directors—see page 79.

FINDINGS AND RECOMMENDATIONS

AGRICULTURE FINANCIAL SERVICES CORPORATION

Matters from current audits

Recent Office of the Auditor General audit communications with AFSC

On June 13, 2016, the Minister of Agriculture and Forestry announced the dismissal of the Agriculture Financial Services Corporation's (AFSC) board of directors. As well, three AFSC senior executives were relieved of active duty. In conjunction with this announcement, the government made public a Corporate Internal Audit Services (CIAS) report that highlighted instances of non-compliance with AFSC's policies, based on looking at select senior executive expenses and select contractors.

Prior to the public release of the CIAS report, the Department of Agriculture and Forestry and AFSC had informed us CIAS was examining certain senior management expenses and contracts at AFSC. We were not involved in the CIAS examination at AFSC, and we obtained the CIAS audit report upon its public release. We view our role as external auditors as complementary to the work that internal audit completes, and as such we do not intend to audit transactions that CIAS has already examined. We will consider the results of CIAS's work in our assessment of risk when planning future audit work at AFSC. We complete an annual audit of AFSC's financial statements and also have the ability to perform systems audits at AFSC. Through our audit work over the last number of years, we identified areas where oversight of AFSC's operations needed improvement and where processes needed strengthening to ensure expenses comply with corporate policies. For example:

- In June 2013, as part of our financial statement audit we made two observations to the board and senior management of AFSC to:
    - improve its documentation of the business purpose supporting travel expenses
    - implement a formal process to report senior executive expenses to the board
- During the fall of 2014, we began planning an audit of oversight processes at AFSC. Before we finalized our audit plan, the government at that time announced a review of agencies, boards and commissions, with AFSC selected as one of the first for review. We decided we would postpone our audit of oversight processes until the government review was complete and AFSC had had time to make any necessary improvements as a result of the review. While it is our understanding that the

review was nearly completed, we have been unable to obtain the results of that review. Because of the recent changes at AFSC and the future appointment of a new board, we will continue to assess whether we should proceed with an audit of oversight processes.
- In June 2015, as part of our financial statement audit we made observations to the board and senior management of AFSC to improve the design of its whistleblower protection process and to better document its assessment of the performance of its reinsurance contractor to better support decisions to renew the contract.
- On May 6, 2016, we issued a management letter to the former chair of the board in which we identified instances of non-compliance with AFSC's policies relating to the expenses of a senior executive. We began our audit work during the fall of 2015, prior to the CIAS audit at AFSC. The senior executive whose expenses we examined resigned prior to our audit. We made two recommendations to management—to improve processes to ensure compliance with policies and to improve the reporting of senior management expenses to the board. Management has accepted our recommendations and is in the process of implementing them. For the results of this audit, see below.

We are aware that senior management at AFSC and the interim board of directors are examining a number of processes and policies to determine what improvements are necessary. We are encouraged that action is being taken to strengthen processes at AFSC. As part of our future audit work at AFSC, we will follow up on all recommendations we have made to AFSC to determine if they have been implemented.

AGRICULTURE FINANCIAL SERVICES CORPORATION—SENIOR MANAGEMENT EXPENSES

Summary

During our financial statement audit for the year ended March 31, 2016, we identified certain transactions involving a former vice president, who resigned in June 2015, that did not comply with AFSC's established policies.

The president and the vice president entered into agreements that either did not comply with AFSC's policies or did not have adequate legal and financial review. Training resources were wasted and AFSC incurred unnecessary expenses as a result. AFSC's board did not receive sufficient information on senior executives' expenses to be able to provide proper oversight.

Recommendations and findings

Training and termination expenses relating to the former vice president, human resources and community relations

BACKGROUND

AFSC has a training and development policy that outlines when return of service commitments may be required. Return of service policies exist to protect an organization's investment—employees may have to pay back professional development expenses if they resign before a particular date. AFSC has a template for training reimbursement agreements to ensure compliance with the policy.

In August 2011 the vice president submitted a request to the president seeking approval for an executive MBA, financed primarily by AFSC. The request highlighted five executive MBA programs and recommended the IE Brown Executive MBA program, at an estimated total cost of $110,000.

In October 2011 the president and vice president signed a training reimbursement agreement. The agreement stipulated that the vice president contribute $15,000 toward the cost of the MBA program and AFSC would cover the remainder of the cost. The vice president started the MBA program in March 2012. On July 31, 2012, the vice president signed a repayment arrangement stipulating that the vice president was to pay the agreed upon $15,000, through $300 monthly deductions for 50 months, starting September 2012 and running through to October 2016.

The vice president completed the MBA program in June 2013. The total actual cost incurred by AFSC for the MBA program, including expenses related to travel and accommodation, was $118,288.

In October 2014, AFSC paid $18,112 to a professional development program to enrol the vice president in an external professional development program from November 2014 to May 2015. The vice president completed the program in May 2015 with the total cost incurred by AFSC, including travel and related expenses, totalling $21,220. There was no return of service agreement for this training.

In June 2015 the vice president resigned, effective July 17, 2015. On June 12, 2015 the vice president and the president signed a return of service waiver agreement that forgave the $19,993 that the vice president still owed for the MBA program as a result of the return of service agreement. In return, the vice president was to provide 150 hours of transition support and consultation services. The human resources department indicated that the $19,993 was equivalent to 150 hours of the vice president's time.

AFSC's termination guidelines state that the termination date is the last day an employee is physically at work. Annual vacation and banked overtime may not be used to extend the termination date. AFSC's earned time off (ETO) policy requires that ETO hours are to be used for time off before using annual vacation. When paid, ETO is paid out at 1.5 times salary.

RECOMMENDATION 11: ENSURE COMPLIANCE WITH ESTABLISHED POLICIES

We recommend that the Agriculture Financial Services Corporation:
- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented.
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that do not comply with AFSC's policies

CRITERIA: THE STANDARDS FOR OUR AUDIT

AFSC should have controls to ensure employees do not reward themselves at public expense. Specifically, AFSC should have processes to:
- develop and comply with effective expense policies
- verify that agreements with employees are properly reviewed and approved
- confirm that its decisions are properly supported and consider cost effectiveness before incurring expenses
- ensure that all employees, including senior executives, comply with AFSC's established policies

OUR AUDIT FINDINGS

KEY FINDINGS

- The vice president training reimbursement agreement did not comply with AFSC's training policy.
- There were weaknesses in the waiver of return of service arrangement.
- Staff did not comply with termination and earned time off policies.

DESCRIPTION	FINDINGS
MBA program training reimbursement agreement	**The training reimbursement agreement was not properly reviewed**—AFSC has a standard template for training reimbursement agreements. We found that important wording in the template, which clarifies when the reimbursement period starts, was not included in the agreement signed by the president and vice president. Finance and legal personnel did not receive the modified training reimbursement agreement to review it before approval. **Calculation not in accordance with policy results in $30,000 shortfall**—AFSC's training policy clearly specifies that the return of service period starts upon completion of the training program. However, the training reimbursement agreement signed between the president and the vice president does not clearly specify when the return of service period starts. As a result of the ambiguity in the training reimbursement agreement, the balance outstanding owed by the vice president at the time of resignation was not calculated in accordance with AFSC's training policy. The calculated outstanding balance of $19,993 would have been approximately $50,000, if it had been done in accordance with AFSC's training policy. AFSC internal audit department also identified that the training reimbursement agreements did not comply with AFSC's training policy.
Repayment of MBA training fees arrangement	**Lack of adequate approval for repayment of training fees arrangement**—On July 31, 2012 the vice president and an HR training employee (one of the vice president's subordinates) signed a repayment of training fees arrangement. We found no evidence that the president approved this arrangement. The repayment of training fees arrangements are normally approved by the human resources department. However, given the conflict of interest due to the vice president's position, this arrangement should have been reviewed and approved by the president or another senior executive at AFSC. **Repayment of training fees not in accordance with training policy**—The $15,000 that the vice president contributed under this arrangement was not calculated using the reimbursement schedule of AFSC's training policy.

DESCRIPTION	FINDINGS
External professional development	**Lack of adequate documentation to explain the business purpose of this training program**—Management was not able to provide us with adequate documentation to explain the business reason for this training before the training expense of $18,112 was incurred. The only documentation for the business purpose for enrolling the vice president in the training was in the vice president's 2014–2015 performance contract, prepared in April 2015—six months after the vice president's enrolment in the program.
Service waiver agreement	**Lack of proper review of the service waiver agreement**—The vice president requested that one of AFSC's external legal advisors draft the service waiver agreement. However, the internal legal counsel was not asked to review the agreement. AFSC's finance department did not verify or review the amount included in the agreement. **Insufficient documentation to support the business purpose of the agreement**—Management was unable to provide adequate documentation to support the business purpose and the specific deliverables required under this agreement. **Vice president was providing consulting services while on paid vacation**—The vice president charged 103 hours against the 150 hours specified in the agreement from June 12, 2015, the last day of work, until July 17, 2015, the effective date of the resignation. In essence, the vice president charged AFSC for consulting services while still an employee of AFSC.
Termination effective date	**Non-compliance with termination policy**—The termination arrangement with the former vice president stipulated an effective date of resignation as July 17, 2015. However, the vice president's last day of work was June 12, 2015. The vice president used banked vacation time to make up the difference. This arrangement did not comply with AFSC's established termination guidelines. Management did not document the justification for deviating from AFSC's established policy.

DESCRIPTION	FINDINGS
Earned overtime paid out on termination	**Payout of overtime was greater than policy allows and not adequately supported**—During the course of our examination in September 2015, management identified an error in the calculation of overtime**.** The vice president's final payout included a payment of $12,218 for accrued overtime. However, the overtime calculation was not in accordance with AFSC's earned time off policy, resulting in an overpayment of $4,072. Management did not document the justification for deviating from the established policy. Management provided us with an email from the former vice president requesting that staff override the policy based on a discussion with the president. The president asserted that he did not approve the vice president's overtime being paid out in a manner that did not comply with earned overtime policy.
AFSC training policy	**Weaknesses in the training policy**—AFSC's training policy does not specify how to calculate the return of service period but, rather, states that the period can range from 24 to 48 months. This policy fails to make a direct link between the cost of training and the length of the return of service period. Determining the length of the return of service period is overly subjective. The training policy does not have a limit on the maximum funding that can be provided for any single training program. Management should consider setting a limit on the maximum funding that can be provided for any single training program. The policy does not set a threshold to determine when a training reimbursement agreement is required.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of adequate review and approval processes of agreements with its employees, AFSC may not be able to enforce the terms of its agreements and protect its rights. The corporation may pay for expenses that have no business purpose.

Reporting of senior executives' expenses to the board

BACKGROUND

Regular reporting to the board on senior executives' expenses is an important practice that enhances the board's oversight process. In June 2013 we issued two observations to AFSC to:

- improve its documentation of the business purpose supporting travel expenses
- implement a formal process to report senior executives' expenses to the board of directors

RECOMMENDATION 12: STRENGTHEN PROCESSES TO REPORT SENIOR EXECUTIVES' EXPENSES TO THE BOARD OF DIRECTORS

We recommend that the Agriculture Financial Services Corporation regularly report to its board of directors on the expenses of senior executives.

CRITERIA: THE STANDARDS FOR OUR AUDIT

AFSC's board should provide proper oversight over the approval of senior executives' expenses.

OUR AUDIT FINDINGS

KEY FINDING

The board of directors does not receive reports on expenses of the corporation's senior executives.

The board does not receive the information on senior management expenses it needs to provide adequate oversight. A well-functioning process to regularly report to the board on the expenses of senior executives, including training expenses, does not exist.

In relation to findings in the previous recommendation, the board was not aware of the multiple arrangements made by AFSC management with the vice president.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective oversight processes, AFSC is exposed to increased financial and reputational risk. Further, the board will not have the information necessary to consider and potentially challenge expenses that may not be appropriate.

OUTSTANDING RECOMMENDATIONS

AGRICULTURE AND FORESTRY AND HEALTH

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59
(Originally October 2006, no. 12, vol. 1, p. 105; repeated as October 2009, no. 13, p. 114)
We again recommend that the departments of Health and Agriculture and Forestry improve reporting on food safety in Alberta.

AGRICULTURE AND FORESTRY, HEALTH AND ALBERTA HEALTH SERVICES

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111
(Originally October 2006, vol. 1, p. 102)
We again recommend that Alberta Health Services and the departments of Health and Agriculture and Forestry, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the "non-federally registered" sector

AGRICULTURE AND FORESTRY AND AGRICULTURE FINANCIAL SERVICES CORPORATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Systems to Manage the Lending Program—Define oversight responsibilities —October 2016, no. 2, p. 25

We recommend that the Department of Agriculture and Forestry and the board of directors of the Agriculture Financial Services Corporation clearly define the oversight responsibilities of both parties for the lending program.

AGRICULTURE FINANCIAL SERVICES CORPORATION

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to Manage the Lending Program—Define strategic objectives, articulate sector credit needs and re-evaluate the relevance of the lending program—October 2016, no. 1, p. 23

We recommend that the Agriculture Financial Services Corporation:

- clearly define the strategic objectives of the lending program; these objectives should be consistent with AFSC's legislative mandate
- clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities
- develop a process to periodically re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant

Systems to Manage the Lending Program—Develop a funding model and costing system —October 2016, no. 3, p. 29

We recommend that the Agriculture Financial Services Corporation:

- develop a product-specific government funding model
- develop a costing system capable of allocating, tracking and reporting product-specific costs

Systems to Manage the Lending Program—Monitor the performance of the loan portfolio —October 2016, no. 4, p. 29

We recommend that the Agriculture Financial Services Corporation set up an independent function to monitor the performance of the loan portfolio.

Ensure compliance with established policies—October 2016, no. 11, p. 75

We recommend that the Agriculture Financial Services Corporation:

- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that did not comply with AFSC's policies

Strengthen processes to report senior executives' expenses to the board of directors —October 2016, no. 12, p. 79

We recommend that the Agriculture Financial Services Corporation regularly report to its board of directors on the expenses of senior executives.