



HOUSE OF COMMONS  
CANADA

**CHAPTER 4, CANADIAN AGRICULTURAL INCOME  
STABILIZATION – AGRICULTURE AND AGRI-FOOD  
CANADA OF THE MAY 2007 REPORT OF THE AUDITOR  
GENERAL OF CANADA**

**Report of the Standing Committee on  
Public Accounts**

**Hon. Shawn Murphy, M.P.  
Chair**

**June 2008**



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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **EIGHTEENTH REPORT**

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered Chapter 4, Canadian Agricultural Income Stabilization – Agriculture and Agri-Food Canada of the May 2007 Report of the Auditor General of Canada. The Committee has agreed to table this Report as follows:

## **INTRODUCTION**

Agriculture and Agri-Food Canada (AAFC, the department) has administered income support programs to agricultural producers since the late 1930s. The Canadian Agricultural Income Stabilization (CAIS) Program began with the 2003 taxation year. The program was designed to provide Canadian agricultural producers with an on-going whole-farm risk management tool that provides protection against both small and large declines in income. The CAIS program has since been replaced by a similar income stabilization program.

This Committee held one meeting on 1 April 2008 to examine the Office of the Auditor General's chapter on the CAIS program.<sup>1</sup> The Committee met with Andrew Lennox, Assistant Auditor General and Raymond Kunze, Director from the Office of the Auditor General. In addition, the Committee heard from Yaprak Baltacioglu, deputy minister of AAFC and Nada Semaan, Assistant Deputy Minister, Farm Financial Programs Branch.

## **BACKGROUND**

The CAIS program was introduced in December 2003. The goal of the program was to help agricultural producers protect their operations from small and large drops in income due to circumstances beyond their control. Producers were eligible for CAIS support if they had farmed for more than six months and had reported farming income for income tax purposes. The program is a federal-provincial-territorial program that is administered by AAFC for all of Canada except Alberta, Ontario, Quebec and Prince Edward Island, where the provincial governments administer the program.

In Budget 2006, the government announced that the CAIS program would be replaced with "more effective programming for farm income stabilization and disaster

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<sup>1</sup> Office of the Auditor General of Canada, May 2007 Report, "Chapter 4, Canadian Agricultural Income Stabilization – Agriculture and Agri-Food Canada."

relief.”<sup>2</sup> In Budget 2007, the government proposed “a separate, simpler and more responsive income stabilization program, through the establishment of a new savings account program for farmers.”<sup>3</sup> AAFC has now established a new program called “Growing Forward” that includes two programs, AgriInvest and AgriStability, which will replace the CAIS program. These programs have been designed to improve on previously identified weaknesses in agricultural income support programs. The government is currently consulting its provincial and territorial partners on the details of the new programs.

The audit chapter focused on how well AAFC processes CAIS program applications meets the monitoring requirements of the federal-provincial-territorial agreements and measures and reports its program performance to Parliament and other parties.

## **ACTION PLAN AND STATUS REPORT**

The Committee believes that government organizations should be able to provide an action plan on how to implement the OAG’s recommendations to the Committee prior to a hearing, especially when the audit report has been tabled in Parliament months earlier. The Committee was pleased to receive a detailed action plan from AAFC before the hearing that discussed how the department will implement the recommendations made in the audit. Providing the action plan prior to the hearing indicated to the Committee that the department is serious in implementing the audit’s recommendations. To ensure that AAFC remains on track in implementing the recommendations, the Committee recommends that

### **RECOMMENDATION 1**

**Agriculture and Agri-Food Canada provide the Public Accounts Committee with a status report by 31 December 2008 detailing its implementation of the recommendations made in Chapter 4:**

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<sup>2</sup> Government of Canada. *Budget 2006. Focusing on Priorities*, p. 85.

<sup>3</sup> Government of Canada. *Budget 2007. Aspire to a Stronger, Safer, Better Canada*, p. 188.

**Canadian Agricultural Income Stabilization – Agriculture and Agri-Food Canada of the Auditor General’s May 2007 Report.**

**TRANSPARENCY**

The audit found that the method of calculating CAIS payments is not transparent. Despite the information made available in individual sessions and online, producers have complained that they do not understand how AAFC calculates the CAIS benefits, that the benefits are not predictable, and that banks will not consider any potential CAIS payments when deciding to lend producers money. The audit expected that AAFC would provide producers with information that would help them submit accurate information but found instead that some producers find it challenging to provide all of the information that AAFC needs to process applications. Producers are required to submit income tax information and detailed information about farm expenses, revenues, and inventories each year.

Sometimes changes are made to the information on an application by CAIS staff after the application is received, but the audit found that the Calculation of Program Benefits statement provided to producers does not explain which figures were changed or why. The audit stated that by not explaining the changes it makes to producers’ applications, AAFC is missing an opportunity to increase the transparency of the CAIS program.

Even though the CAIS program is being phased out, the issues raised in the audit chapter are relevant for any new incarnations of income stabilization programs. Ms. Baltacioglu stated that the recommendations made by the Auditor General are “very relevant [to a new program] because in any program that we run it’s important to have appropriate transparency.”<sup>4</sup>

In its action plan, the department stated that it was introducing a new Calculation of Program Benefits statement that will improve the transparency of the CAIS program



applications by identifying AAFC's adjustments to producers so they can see how benefits were calculated. The Committee is satisfied that the department has taken the audit's recommendations seriously, and is looking forward to hearing that this move to greater transparency is helping producers better understand the calculation of their benefits. For this reason, the Committee recommends that

## **RECOMMENDATION 2**

**Agriculture and Agri-Food Canada include in its annual departmental performance report a performance indicator that measures agricultural producers' satisfaction with the Canadian Agricultural Income Stabilization program and its successor programs.**

## **INCOME STABILIZATION PROGRAM EVALUATIONS**

Programs similar to the CAIS program have been in place since the late 1930s. Over this period of time, there have been many incarnations of farm support programs, including the Crop Insurance Program, the Net Income Stabilization Account, Agricultural Income Disaster Assistance, Canadian Farm Income Program and the CAIS program. And recently the CAIS program has been replaced by AgriStability and AgriInvest programs. When asked why farm income support programs keep changing, Ms. Baltacioglu stated that

Since the 1930s, some of the changes have been straight-up policy decisions, when, for example, governments decided to move from commodity-based support to whole-farm support... That was a policy shift. Some of the changes are made because we hear from the producers. We work very closely with the agricultural industry. We consult with them on almost every program we put in place and we hear from them if it doesn't work for them... So it's a combination of need, it's a combination of general wisdom the governments and the producers and the sector get together." (1150)

The Committee understands that programs must change over time, and accepts the reasons provided by Ms. Baltacioglu for why farm income support programs have changed.

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<sup>4</sup> Meeting 23, 1140.

However, the Committee is concerned that the department has not learned lessons from previous income support programs when it introduces new programs. This concern stems from the number of audits that have been completed over the years. The Office of the Auditor General has been auditing farm support programs since at least 1986. In 1986, the Office recommended that AAFC should establish goals for each of its farm income support programs and document the principles, policies and operating procedures to achieve them. In 1991, an audit of farm safety net programs found that the department had not acted on the recommendations made in 1986 concerning performance measurement and reporting. For this reason, management still did not have reliable information on the impacts and effects of farm support programs. In an audit completed in 1994, the Office of the Auditor General stated that it was concerned that AAFC continued to operate its farm income support programs without a clear consensus on what they were expected to achieve.

The Office of the Auditor General performed a follow-up audit in 1996 that looked at how the department had implemented past recommendations. This audit found that it was still not clear which performance indicators were considered relevant in relation to program objective and principle statements. This follow-up audit also found that AAFC had not yet completed evaluations of farm income support programs that it had committed to completing in 1993, 1995 and 1996.

Given the number of times that the Office of the Auditor General has audited farm income support programs and found that these programs are consistently problematic in their administration, the Committee is concerned that the department has not established any mechanism to evaluate income support programs and to apply lessons learned from past programs to new programs. In order to ensure that AAFC does not perpetuate weaknesses found in previous income support programs, the Committee recommends that

### **RECOMMENDATION 3**

**Agriculture and Agri-Food Canada conduct summative evaluations at the end of each farm income support program's life and report on these evaluations in its departmental performance report.**

### **PERFORMANCE MONITORING AND REPORTING**

One of the common complaints from producers identified by the audit was that CAIS payments were not made in a timely manner. In a sample of 2004 program applications, the audit found that the average time to process an application was 120 days. During the first two years of the CAIS program, the department aimed to process applications within 60 days during non-peak periods and within 75 days during peak periods. According to AAFC records, it met its service standard 65 percent of the time in 2003 and 26 percent of the time in 2004. At the end of the audit, AAFC was meeting the service time standard for 2005 38 percent, even after AAFC increased its service time standard to 90 days during peak periods.

The Committee was disappointed to hear that the department had such a poor track record in meeting its service time standards. By unnecessarily delaying a payment to an agricultural producer, AAFC may be burdening these producers with increased economic risks. The audit recommended that AAFC set realistic service time standards for processing CAIS applications and that the department should accurately measure its performance against those standards. In its action plan, AAFC stated that an interim service standard was negotiated in June 2007, and that a final service standard would be in place later in 2008.

The Committee strongly believes that without clear and realistic service standards, departments cannot serve their clients in the best way possible. Promising agricultural producers to process their applications in 75 days, only to leave those producers without payment for up to 120 days places them in a potentially damaging financial situation. In order to ensure that AAFC sets a realistic service standard and that it report on its

performance in meeting that service standard for the newly established AgriStability and AgriInvest programs, the Committee recommends that

#### **RECOMMENDATION 4**

**Agriculture and Agri-Food Canada establish a realistic service standard for processing Canadian Agricultural Income Stabilization program and AgriStability and AgriInvest program applications and report on how this service standard is being met in its annual departmental performance report.**

#### **CONFLICTS OF INTEREST**

The audit identified cases where employees who process CAIS applications actually helped producers prepare their applications for income support, sometimes for a fee. In the opinion of the Auditor General, the fact that CAIS application processors who also work as private consultants to help prepare CAIS applications contravenes the conflict of interest provisions in the *Values and Ethics Code for the Public Service*.

Under the *Values and Ethics Code*, public servants have the responsibility to carry out their official duties in a manner that will prevent real, apparent or potential conflicts from arising.<sup>5</sup> In addition, public servants have the following specific duties:

- They should not have private interests that would be affected particularly or significantly by government actions in which they participate;
- They should not solicit or accept transfers of economic benefit;
- They should not step out of their official roles to assist private entities or persons in their dealings with the government where this would result in preferential treatment to the entities or persons; and
- They should not knowingly take advantage of, or benefit from, information that is obtained in the course of their official duties and that is not generally available to the public.

By assisting producers in preparing their CAIS applications, at times for a fee, the Committee agrees with the Auditor General's opinion that these employees are in violation of the *Values and Ethics Code*.

The Committee was greatly disturbed to learn that the conflict of interest provisions of the *Values and Ethics Code* were violated in the processing of CAIS applications. The department told the Office of the Auditor General that it reminded all employees of their obligations under the *Values and Ethics Code* and that it is implementing a process to address the risks associated with employees preparing applications for their own farms, in addition to family or friends' farms. Ms. Baltacioglu informed the Committee that all AAFC staff are indeed now given the *Values and Ethics Code* when they are hired and they are required to attest that they will comply with the *Code*.<sup>6</sup> Should further violations occur, the Committee expects that appropriate sanctions would be applied.

The Committee was more disturbed, however, to learn that even after the audit discovered that some CAIS employees were found to be in violation of the *Values and Ethics Code*, they were not sanctioned in any way. The audit stated that after it had notified the department of potential conflicts of interest, it sent a reminder to 18 CAIS employees. During the hearing, Ms. Baltacioglu confirmed that the department had identified five employees who were found to have been in violation of the *Values and Ethics Code*.

The Committee sought assurances from Ms. Baltacioglu that the files processed by the five CAIS employees who were found in violation of the *Code* would be audited to ensure that the files were handled correctly. The Deputy Minister wrote to the Committee after the hearing and stated that the files would be segregated and revalidated to ensure they were processed appropriately and according to program rules. In addition, she stated that the five employees will be asked to provide a list of all files that they prepared on a fee for service basis. These lists will be validated against the department's information to ensure that all associated files are reviewed. The Committee appreciates this move to make sure that all these files were handled fairly, but would like confirmation that this has been done. Therefore, the Committee recommends that

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<sup>5</sup> Treasury Board Secretariat of Canada, *Values and Ethics Code for the Public Service*. 2003, pp. 20-21.

<sup>6</sup> Meeting 23, 1115.

## RECOMMENDATION 5

**Agriculture and Agri-Food Canada provide confirmation to the Public Accounts Committee that all of the files handled in any way by the five employees found to have been in violation of the *Values and Ethics Code for the Public Service* have been audited and that any appropriate and corrective actions have been taken to address any inconsistencies found in the audits.**

## CONCLUSION

The importance of agricultural producers to the life of all Canadians cannot be stressed enough. To best support these producers, there has to be in place programs that can support them if they experience small or large drops in income due to circumstances beyond their control. AAFC has been supporting producers with income support programs since the 1930s. However, as the Auditor General has pointed out in numerous audit chapters, the department has not managed these income support programs in the most effective ways.

Now that the CAIS program is being replaced with the AgriStability and AgriInvest programs, the Committee hopes that the department will include any actions taken as a result of the recommendations included in the audit chapter in the implementation and management of these new programs.

Lastly, the Committee is keen to see the department stress the importance of complying with the *Values and Ethics Code for Public Servants* to its employees. By allowing employees to assist producers in their applications for income support, the department puts itself in a position where its income support decisions could be called into question for fairness. This situation cannot be allowed to continue, and the Committee firmly hopes that the department will now sanction any employees that are found to be in violation of the *Values and Ethics Code*.

## APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<b>Department of Agriculture and Agri-Food</b>	2008/04/01	23
Yaprak Baltacioglu, Deputy Minister		
Nada Semaan, Assistant Deputy Minister Farm Financial Programs Branch		
<b>Office of the Auditor General of Canada</b>		
Raymond Kunze, Director		
Andrew Lennox, Assistant Auditor General		

## REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 23 and 38](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, M.P.  
*Chair*