



# Examination of Select Senior Executive Expenses and Procurements at Agriculture Financial Services Corporation

For Alberta Agriculture and Forestry

April 28, 2016

*Corporate Internal Audit Services activities conform with the International Standards for the Professional Practice of Internal Auditing*

*Alberta* ■  
Treasury Board  
and Finance

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## 1.0 Background

Agriculture Financial Services Corporation (“AFSC”) is a Provincial Corporation as defined under the *Financial Administration Act*. It was created “for the purpose of lending funds, providing financial assistance, providing insurance, and issuing opportunity bonds<sup>1</sup>” on behalf of the Government of Alberta (“GoA”) to the agricultural industry and other industries in Alberta. AFSC is incorporated and governed by the *Agricultural Financial Services Act* (“AFS Act”) in Alberta, and its Regulation.

AFSC is governed by a Board of Directors (“BoD”) appointed by and accountable to, the Minister of Agriculture & Forestry. The President and Managing Director (P&MD) is an ex officio member of the Board under Ministerial Order 018/2013, and is the most senior employee of AFSC. AFSC employs approximately 600 people across Alberta, in 46 field offices with its head office in Lacombe.

AFSC employees and the BoD are to abide by a Code of Conduct and Ethics (“Code of Conduct”). Section 3 of the Code of Conduct refers to personal conduct; Section 6 refers to conflicts of interest and acceptance of gifts; and Section 9 requires disclosure of real or apparent conflicts of interest.

AFSC’s Employee and Board of Directors Expenses Policy states that “Exemption from the policy and expenses not expressly authorized by this policy may be approved by the President and Managing Director. However, there shall be no exception from Principles and Mandatory Requirements of this policy.” The principles include:

- “Taxpayer dollars are to be used prudently and responsibly with a focus on accountability and transparency.
- Expenses for travel, meals and hospitality support AFSC's business objectives.
- Plans for travel, meals, accommodation and hospitality are necessary and economical with due regard for health and safety.
- Only legitimate authorized expenses incurred during the course of AFSC's business are reimbursed.
- Prior approval to incur expenses is obtained where appropriate.”

The Procurement Policy Principles include the following:

- “Procurement will be conducted through fair, open, competitive and transparent processes, with no privilege/favor or prejudice in selection of successful vendors;
- Comply with applicable legislation such as; procurement chapter of the Agreement on Internal Trade and the Trade Investment (AIT) and Labour Mobility Agreement between Alberta and British Columbia; and
- The Corporation and any AFSC staff shall not solicit nor accept gifts of any kind from vendors”.

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<sup>1</sup> *Agriculture Financial Services Act* Section 9 (1)

## 2.0 Objective and Scope

The Department of Agriculture and Forestry (Department) was apprised of concerns at Agriculture Financial Services Corporation, a Provincial Corporation, that select AFSC senior executive management expenses and vendor contracting and procurement were not in accordance AFSC policies and Code of Conduct.

The specific concerns were deemed to require an examination and the Chief Internal Auditor was requested by the Department to undertake the examination.

### Objective

The objective of this examination was to determine whether select AFSC senior executive expenses and vendor contracting and procurement were in accordance AFSC policies and Code of Conduct.

Examination Criteria:

- 1) For select senior executives – Executive management expenses were in accordance with AFSC policies and Code of Conduct.
- 2) For select vendors – AFSC vendor contracting and procurement were in accordance with AFSC policies and Code of Conduct.
- 3) AFSC vendor contracting and procurement followed a competitive process in accordance with AFSC policies.

This engagement conformed with the International Standards for the Professional Practice of Internal Auditing.

### Scope

#### Senior Executive Expenses:

Our examination of senior executive expenses\* was limited to the expenses incurred by the following individuals, and the focus of our examination was expense claims and corporate credit card expenses:

- President and Managing Director;
- Chief Operating Officer;
- Vice President, Innovation and Product Development; and
- The Executive Assistant to the President and Managing Director (*focus of expenses of the executive assistant would be those incurred for the President and Managing Director or under his direction*).

## **Contracting and Procurement:**

Contracting and procurement related to the following was examined:

- Contract(s) with the reinsurance Broker – provides reinsurance services to AFSC\*;
- Contract(s) with a Consultant – provides strategic planning and other support to AFSC; and
- Leased AFSC office premises in High River.

\*Expenses such as gifts, meals and entertainment incurred by the Broker related to AFSC employees were also considered as part of this engagement.

A limited review of a sample of other vendor procurements was undertaken to determine if a competitive process in accordance with AFSC policies was followed.

## **Time Period:**

The examination focused on the last four years. However, in some instances such as understanding certain vendor relationships earlier years were also examined.

## **Scope Exclusions:**

Activities under examination only extended to the above limited areas. Our examination **cannot** be used to draw conclusions regarding other expenses and contracting and procurement at AFSC.

# **3.0 Summary of Results**

## **Conclusions**

### **Code of Conduct**

Related to the above areas during our examination we noted the following areas of non-adherence to AFSCs Code of Conduct:

- Spirit and intent of the Code of Conduct
- Section 6 (b): related to acceptance of gifts of more than a nominal value and the solicitation of gifts related to requesting a vendor to pay for items
- Section 6 (a): related to taking opportunities that arise as a result of one's position
- Section 3 (c): related to alcohol use during business hours

### **Senior Executive Expenses**

Based on our examination, for expenses related to the three senior executives there was non-compliance with four of the five Employee and Board of Directors Expenses Policy Principles:

1. Taxpayer dollars are to be used prudently and responsibly with focus on accountability and transparency.
2. Expenses for travel, meals and hospitality support AFSC's business objectives.
3. Plans for travel, meals, accommodation and hospitality must be necessary and economical with due regard for health and safety.
4. Only legitimate authorized expenses incurred during the course of AFSC's business are reimbursed.

The fifth principle, prior approval to incur expenses is obtained where appropriate, and was complied with as we found only one instance where a signed authorization was not on file.

Related to other elements of the expense policy, we noted instances of non-compliance related to maintenance of proper receipts.

#### **Contracting and Procurement**

Based on our examination, for the contracting and procurement there was non-compliance with the following AFSC procurement policies: requirement for obtaining minimum number of quotes, requirement to use centralized procurement, principle related to the acceptance and solicitation of gifts, and principle related to fair, open, competitive and transparent processes.

Our scope for selected vendors in Section 4.2.4 was limited to the solicitation and awarding of contracts.

#### **Main Observations**

The results of this examination indicate that Board oversight of the Code of Conduct, senior executive expenses and procurement activities needs to be strengthened.

The Chair is responsible for authorizing and therefore challenging the President and Managing Director expenses. The results of this examination indicate that the challenge function needs to be strengthened.

The three senior executives received meals, alcohol<sup>2</sup>, paid entertainment (including theatre and concert tickets and sporting event admissions), rounds of golf and gifts on a frequent basis over four years from the Broker, a significant violation of AFSC's procurement policy, which prohibits acceptance of gifts of any kind from vendors, as well as the Code of Conduct. For example in 2014, the President and Managing Director received meals/drinks, tickets, or golf games more than 50 separate days. In addition the Broker paid a portion of costs related to specific AFSC events or functions, including the 2014 Calgary Stampede and Board Tour, and some Board meetings/functions.

The Broker contract contained pricing that was different than that submitted by the Broker in its RFP response. The contract was renewed early and included additional services that do not appear to align with the RFP. We requested documentation related to the monitoring of the Broker contract and were not provided with any, as it was not available.

We identified unreasonable expenses in 2011 and 2012 incurred prior to October 1, 2012 when the principles of the current expense policy formerly came into effect and prior to the current requirements for public reporting of these expenses. These expenses did not meet the pre-October 1, 2012 expense policy requirement that expenses must be reasonable and necessarily incurred by an employee in performing work duties.

We also identified expenses after October 1, 2012 that did not meet the required principles that taxpayer dollars are to be used prudently and responsibly with a focus on accountability and

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<sup>2</sup> We understand that [REDACTED] does not drink alcohol.

transparency. For example, between January 2013 and December 2015 the three senior executives incurred airfare and hotel costs in excess of \$170,000 for reinsurance trips. Some of the trips included significant portions of time spent on activities such as golf and entertainment per review of a sample of trip agendas. However, detailed course/meeting schedules including other activities noted above are not required to be provided to support the request for approval for these trips. Also, other activities related expenses are often not shown as part of the current public reporting requirements as these activities were often paid for by the Broker.

We noted approximately 30 instances in 2014 and 2015 where the President and Managing Director and the Vice President, Innovation and Product Development charged a per diem for a meal when a meal had been provided by the Broker. Therefore, these per diems should not have been charged.

The President and Managing Director was in an apparent conflict of interest in approving his Executive Assistant's corporate credit card transactions. As a number of the expenses were for his travel or were directed by him (such as those related to reinsurance meetings), he was, in essence, approving his own expenses. Under AFSC's Finance Authorities Document, expenditure officers cannot approve expenses related to themselves.

For the Consulting Contract, procurement policy and procedures were not followed in procuring the services of the consultant. Procurement(s) was not conducted through a fair, open, competitive and transparent process, with privilege/favor shown in selection of the successful vendor.

Of the 15 vendors selected for examination with payments between January 1, 2013 and December 31, 2015, all of the contracts for 7 of the vendors were in compliance with the procurement policy. The 8 other vendors had one or more contracts/purchase orders that had significant non-compliance issues with the procurement policy and procedures.

### **Recommendations**

We recognize that our recommendations below fall primarily under the responsibilities of the Board.

We also recognize the implementation of our recommendations requires the continued confidence of the Minister in the current Board and co-operation from the Board. As a result additional action may be deemed necessary to address the issues identified in this report.

The following are our recommendations based on our examination:

- 1. We recommend disciplinary action be considered against the President and Managing Director, the Chief Operating Officer and the Vice President, Innovation and Product Development. Prior to taking any action legal advice should be obtained.**

Under section 2.0(a)(ii) of the Code of Conduct and Ethics, the President and Managing Director is the Administrator where the Code of Conduct relates to employees of AFSC. Also, as the head of the organization, the President and Managing Director has overall

responsibility for policy and compliance. Where the Code of Conduct relates to Board Members, the Chair of the Board of Directors is the Administrator.

Section 9.0, sub-section (f) states "Consequences of a Breach – Compliance with the Code is an integral part of your responsibilities with AFSC. If you do not comply with the standards of behaviour identified in this Code, including taking part in a decision or action that furthers your private interest, you may be subject to disciplinary action up to and including termination of your employment or removal of your Board membership. AFSC may also pursue other remedies for any damages or harm as a result of a breach."

**2. We recommend measures be taken to strengthen governance and oversight by the Chair and the Board over adherence to the Code of Conduct, senior executive management expenses and procurement.**

Potential areas to consider include the following:

- The Board needs to strengthen oversight to meet its responsibilities under the second part of section 5.3.1.5 of Memorandum of Understanding between the Minister and the Corporation dated April 2010:

*Section 5.3.1.5*

*"Establishing standards of conduct and ethical behaviour for the Board, and all AFSC employees, and obtaining, on a regular basis, reasonable assurance that AFSC has an ongoing, appropriate and effective process for ensuring adherence to those standards."*

- The President and Managing Director be removed as a voting member on the Board or alternatively removed as a member of the Board.
- The Finance Authority document should be approved by the Chair of the Board, or the Board (or Sub-Committee of the Board). The Executive Assistant to the President and Managing Director should not have the authority to approve the executive team expenses.
- A more robust challenge should occur for international travel. All international travel should be approved by the Board (or Sub-Committee of the Board) and be supported by detailed meeting/activity itineraries and agendas so that the reasonableness of the travel and cost can be evaluated.
- A more robust challenge should be performed by the Chair when authorizing travel for the President and Managing Director. Requests for travel should include detailed agendas and itineraries.
- Total expense claims and credit card expenses by executive management and their assistants should be reviewed regularly (quarterly/annually) by the Board (or sub-Committee).



- Processes should be put in place to provide the Board assurance that procurement policies and procedures are being followed.

## 4.0 Observations

### 4.1 Senior Executives Expenses

#### *Summary Observations*

The three senior executives received meals, alcohol<sup>3</sup>, entertainment and rounds of golf on a frequent basis over four years from the Broker, a significant violation of AFSC's procurement policy and Code of Conduct. For example in 2014, the President and Managing Director received meals/drinks, tickets, or rounds of golf on more than 50 separate days. Payment for specific meals, drinks, rounds of golf, entertainment or other gifts or events listed only AFSC and Broker staff on 35 of these days. The other two senior executives also received meals/drinks, tickets, or games of golf.

This is a clear violation of the procurement policy, which prohibits acceptance of gifts of **any kind** from vendors, and the Code of Conduct which indicates gifts must be of nominal value.

We noted expenses in 2011 and 2012 that were not clearly reasonable or necessary in performing work duties as noted below.

Senior executives traveled frequently to meet with reinsurers when a contract was in place with a broker to place the reinsurance. Typically, the President and Managing Director and one or both of the other two senior executives travelled together. The reinsurance contracts require that communication with reinsurers and payments to or from reinsurers are to go through the Broker. Through inquiry we learned, reinsurers travel to Canada. These items reduce the need for international travel and generally the extensive travel for reinsurance related business.

Agendas for reinsurance travel include trips with few meetings to trips with a number of meetings. Trips often included other activities such as golf or entertainment paid by the Broker.

We requested the detailed agendas for a sample of 19 trips from 2012 through 2015. Of the 19 trips, two were noted as cancelled and two trips to Toronto did not have agendas. Of the 15 remaining trips examined, we noted four trips where there were no scheduled meetings on the agenda for one or more days at the beginning or end of the particular trip. We noted time was recorded as worked on these days.

The Broker paid a portion of costs related to specific AFSC events or functions, including the 2014 Calgary Stampede and Board Tour, and some Board meetings/functions.

Based on analysis for the 2014 and 2015 calendar years, per diems were incorrectly claimed approximately 30 times in total by the President and Managing Director and the Vice President Innovation and Product Development as meals had been provided.

#### *Analysis*

While four Employee Expense policies were in effect during the period examined, the policy effective May 1, 2008 was used in examining all expenses prior to October 1, 2012 and the policy effective October 1, 2012 was used in examining all expenses on or after October 1, 2012.

<sup>3</sup> We understand that [REDACTED] does not drink alcohol.

We examined expense records for the following individuals.

Title	Period Examined
President and Managing Director	January 2011 to December 2015
Executive Assistant to President*	January 2011 to December 2015
VP, Innovation and Product Development	January 2011 to December 2015
Chief Operating Officer	January 2011 to November 2015

*\*As sixteen percent of the Executive Assistant's expenses related to reinsurance travel for the President and Managing Director, other larger amounts related to corporate and board functions, and some expenses were directed by the President and Managing Director, we included all of the Executive Assistant's expenses in our examination. In addition, for the travel expenses that were in non-compliance noted on the following page related to activities of the three Senior Executives, the Executive Assistant was not a participant in these activities.*

During the five years reviewed, expenses submitted by either expense claim or by corporate credit card totalled \$899,363.94. Of note, as detailed later in the report, \$341,589 of the expenses were identified as related to reinsurance matters.

The following table breaks out these expenses by type for the last five years based on records provided by AFSC:

Expense Type	2011	2012	2013	2014	2015	Total
Travel	66,797.84	130,366.19	71,611.56	80,512.24	35,732.73	385,020.56
Meals	21,671.63	18,365.29	9,416.78	13,479.99	10,858.27	73,791.96
Hospitality	8,236.41	11,502.10	9,820.19	7,269.30	4,450.60	41,278.60
Conference Fees	13,804.88	19,361.03	8,634.62	7,348.88	9,330.21	58,479.62
Accommodations	48,872.18	29,714.98	37,300.25	70,898.37	54,228.11	241,013.89
Office	312.82	918.70	1,981.94	838.60	374.22	4,426.28
Other	2,878.04	363.20	2,295.54	0.00	2,480.35	8,017.13
Mileage/Transportation	11,525.58	22,843.98	13,377.92	22,618.03	11,556.10	81,921.60
Per Diems (Incidentals)	912.05	591.40	1,453.65	1,665.60	791.60	5,414.30
<b>Total</b>	<b>175,011.43</b>	<b>234,026.87</b>	<b>155,892.45</b>	<b>204,631.01</b>	<b>129,802.19</b>	<b>899,363.94</b>

Source: January 1, 2011 to December 31, 2015 AFSC expense claims, January 1, 2011 to December 31, 2015 AFSC Corporate credit card Statements and December 1, 2013 to December 31, 2015 AFSC ExClaim Online Reporting Data

Of the above expenses, 53.3% were incurred by the President and Managing Director (including the Executive Assistant's expenses), 21.9% by the Chief Operating Officer and 24.8% by the Vice President, Innovation and Product Development.

In addition to these expenses, many hospitality, events, group hotel bookings, catering services, and other expenses were paid by AFSC directly, so they did not appear on a personal expense claim or assigned corporate credit card.

#### *Pre-October 1, 2012 Expenses*

AFSC's 2008 Employee Expenses Policy was used to examine expenses claimed by senior executives prior to October 1, 2012 as the policy changed substantively on this date. The 2008

Employee Expenses Policy states that expenses must be reasonable and necessary in performing work duties. The President and Managing Director can determine if an expense falls within the intent of the policy. We identified 2011 and 2012 expenses that were not clearly reasonable or necessary in performing work duties. They include:

- \$1,880.25 including tip for Prestige Limousine trips in November and December 2011; \$1,512 related to attendance at Christmas parties/functions. Of the \$1,512, \$720 related to the AFSC Christmas party in Lacombe. The President and Managing Director took a limo from Edmonton to Lacombe return. The charge included a 4 hour wait for the limo.
- \$1,506.00 including tip for Prestige Limousine trips from February 23 to April 7, 2012 incurred by the President and Managing Director. Of this amount, \$1,196 related to attendance at hockey games, and a dinner and concert at Rexall Place.
- \$5,108 for a dinner in Tokyo in 2011, hosting the Alberta Government representative in Japan. It is unknown who, other than the President and Managing Director and another associate attended this event.
- \$1,071 in hosting at Edmonton Country Club in 2012 (no itemized receipt is available).
- \$880 for Red Deer Rebels hockey tickets in 2011.
- \$368 including tip for transportation to a fundraising event for MacEwan University on April 14, 2012.
- \$19,144 paid to the Consultant referred to in Section 4.2.2 for a 25% share of Edmonton Oilers luxury box tickets (for 10 games) in 2011. In addition, detailed receipts for food and beverage at the games were not provided in support of the \$664.54 paid by AFSC. A detailed listing of attendees at the games was not available

#### *Post-October 1, 2012 Expenses*

Effective October 1, 2012, direction for employee and Board of Director member expenses and allowances is outlined in Agriculture Financial Services Corporation's "Employee and Board of Directors Expenses Policy." In addition to direction for specific types of expenses (e.g. Travel, Meals, Hospitality), the policy directive includes Principles and Mandatory Requirements – General. While the President and Managing Director may approve an exemption from the Employee and Board of Directors Expenses Policy (section 6 through section 12 of the policy statement), no exception is allowed from the Principles and Mandatory Requirements. Given that:

- the President and Managing Director has the authority to override the expense policy except for the Principles and Mandatory Requirements;
- the total hospitality expensed (per table on the previous page) was \$41,278; and
- two of the four Mandatory Requirements were related to Hospitality Expenses,

our examination focused heavily on compliance with the Principles.

Based on the examination of expenses, four of the five Principles of the Employee and Board Expense Policy were not met. Included in the following table are examples of expenses in non-compliance, as identified as part of our work.

Employee and Board Expense Policy – Five Principles	Examples of Non-Compliance
<ol style="list-style-type: none"> <li>1. Taxpayer dollars are to be used prudently and responsibly with focus on accountability and transparency.</li> <li>2. Expenses for travel, meals and hospitality support AFSC's business objectives.</li> <li>3. Plans for travel, meals, accommodation and hospitality must be necessary and economical with due regard for health and safety.</li> </ol>	<ul style="list-style-type: none"> <li>• “Reinsurance Travel” – see Section 4.1.1 of the report. The amounts in Section 4.1.1 relate to all three senior executives and covers the period 2011-2015.</li> <li>• See section 4.1.2 regarding the Calgary Stampede expenses.</li> <li>• \$431 for golf with the Broker in 2013.</li> <li>• \$12,500 for 500 Starbucks cards from 2012 to 2015; approximately 200 were identified as gifts for reinsurers while traveling outside Alberta and Canada and 196 are unaccounted for. Of the 304 cards issued, only 101 of the individual recipients were recorded.</li> </ul>
<ol style="list-style-type: none"> <li>4. Only legitimate authorized expenses incurred during the course of AFSC's business are reimbursed.</li> </ol>	<p>Examples of non-compliant transactions are noted above.</p> <p>Travel Authorizations for the President and Managing Director are approved by the Board Chair or Vice-Chair. The Board Chair also reviews the corporate credit card statements for the President and Managing Director.</p> <p>We note that the President and Managing Director was in an apparent conflict of interest in approving his Executive Assistant's corporate credit card expenses specifically when they included amounts for his travel or were directed by him. In these situations, he was, in essence, approving his own expenses. Section 2.5.1 of the Finance Authorities Document states that Expenditure Officers cannot approve expenses related to themselves. We also noted two instances where the President and Managing Director approved another senior executive's expenses when there were expenses incurred on behalf of the President and Managing Director. The Finance Authorities document also states that in absence of an expenditure officer, the authority is exercised by someone higher in the organization. However, we note that the Executive Assistant to the President and Managing Director is an expenditure officer for the Executive Team.</p>

For the fifth principle related to pre-approval of travel, we reviewed travel authorization documents and noted only 1 out of the 100 sampled was not approved. We also examined 38

authorizations from 2014 and 2015 for purpose of travel. We noted that all 38 indicated the purpose. However, detailed course/meeting schedules including other activities are not required to be provided to support the travel request per the Expense Policy.

Related to other expense policy elements, we noted some receipts were submitted to support the expenses on the corporate credit card; however, in some cases, receipts were not itemized or were not available for review. While itemized receipts were always required, we noted a significant improvement in the retention and submission of itemized receipts after the new policy came into effect and external reporting began. We noted that some itemized receipts were reduced by non-allowable expenses.

Also, the Broker incurred many expenses on behalf of these three senior executives. Examples of non-compliance issues related to these activities are included in Section 4.1.2 Broker Purchases. Analysis of the Broker contract is included in Section 4.2.1.

#### **4.1.1 Reinsurance Travel**

During the period reviewed, the three senior executives (the President and Managing Director, the Vice President, Innovation and Product Development and the Chief Operating Officer) each travelled to meetings with reinsurance companies, incurring total expenses paid by AFSC of \$341,589. Based on expense claims and documents reviewed:

- The President and Managing Director travelled out of province for reinsurance related matters 29 times between 2011 and 2015, and incurred expenses of \$176,944.
- The Vice President, Innovation and Product Development travelled 17 times outside the province for reinsurance matters between 2011 and 2015, with 15 of those trips occurring in 2014 and 2015, nearly always with the President. The cost of these trips was \$85,066.
- The Chief Operating Officer travelled 17 times outside the province for reinsurance matters in the period of review, again, usually with the President at a cost of \$79,579.

Senior executives advised us that the purpose of the trips were to build relationships with reinsurers and the reinsurance broker, which led to better reinsurance rates and decisions for AFSC. They also indicated that there are conversations with reinsurers on current and changing issues as well as new products and approaches being developed. Examples were provided of work being undertaken by reinsurers in which AFSC is participating.

Under contract, one of the roles of the Broker is to place the reinsurance and negotiate the rates with reinsurers. The Broker also provides other services such as research (including whitepapers) and product development, such as cattle price insurance. The Broker has attended AFSC Board meetings and strategy planning sessions. As such, it appears that the Broker has a good understanding of AFSC business. We reviewed the insurance/reinsurance contracts placed by the Broker for 2013-2016. All contracts contain a clause that recognizes the Broker as the intermediary, negotiating the contracts through whom all notices, correspondence and payments in connection with the contracts and any changes to the contracts shall be forwarded. This includes payments to or from reinsurers. Through inquiry we learned that the reinsurers travel to Canada and to Alberta, including Lacombe. It is therefore unclear why AFSC needed to travel internationally and generally to travel so extensively to meet with reinsurers particularly as Broker staff also attends the meetings.

The following table is a summary of reinsurance travel by calendar year:

Reinsurance Travel Expense	2011 Total	2012 Total	2013 Total	2014 Total	2015 Total	Grand Total
Travel	33,300.16	42,391.62	20,692.49	62,348.61	19,615.39	178,348.27
Meals	396.78	1,103.18	1,543.09	3,415.24	913.58	7,371.87
Hospitality	-	8,520.14	5,515.25	4,430.31	-	18,465.70
Conference Fees	1,596.62	6,401.26	1,635.14	58.00	4,304.90	13,995.92
Accommodations	8,596.00	11,846.98	16,783.53	36,411.42	18,448.28	92,086.21
Mileage/ Transportation	3,799.85	5,812.73	2,959.86	13,796.85	1,972.40	28,341.69
Per Diems (Incidental)	381.00	478.15	635.45	1,216.35	390.35	3,101.30
Other <sup>4</sup>	-	-	(121.53)	-	-	(121.53)
<b>Total</b>	<b>48,070.41</b>	<b>76,554.06</b>	<b>49,643.28</b>	<b>121,676.78</b>	<b>45,644.90</b>	<b>341,589.43</b>

Source: January 1, 2011 to December 31, 2015 AFSC expense claims, January 1, 2011 to December 31, 2015 AFSC Corporate credit card Statements and December 1, 2013 to December 31, 2015 AFSC ExClaim Online Reporting Data

We were advised that there were events attended by senior executives and staff paid for by the Broker or reinsurance companies. In examining a sample of AFSC senior executive's agendas for trips and based on data extracts received from the Broker, we noted many of the trips included considerable golfing or other entertainment paid by the Broker. See Section 4.1.2 for examples of events paid by the Broker.

We examined a sample of agendas and event itineraries to determine time spent meeting with reinsurers or the Broker. The agendas ranged from only a few meetings and more activities to trips with a number of meetings and few activities. We requested the detailed agendas for a sample of 19 trips from 2012 through 2015. Of the 19 trips, two were noted as cancelled and two trips to Toronto did not have agendas. Of the 15 remaining trips examined, we noted four trips where there were no scheduled meetings on the agenda for one or more days at the beginning or end of the particular trip. We noted time was recorded as worked on these days.

#### 4.1.2 Broker Purchases

Under the Principles section of the Procurement Policy, it states "The Corporation and any AFSC staff shall not solicit nor accept gifts of any kind from vendors". The Procurement Policy Principle regarding acceptance of gifts has been contravened as both gifts and paid entertainment have been received by AFSC executives when traveling to meet with reinsurers.

The Broker provided a listing to AFSC of expenses it paid attributable to the AFSC contract, including:

- Travel and entertainment related expenses, and
- Gifts purchased for AFSC employees.

We were provided with information based on calendar year of travel. We have not reviewed any supporting documentation as it is retained by the Broker. Nor have we verified the listing for completeness or accuracy. However, this information provided detail related to each of the three

<sup>4</sup> The negative amount is a repayment of expenses

senior executives who were in attendance when the Broker paid for the meal or entertainment/activity. For example, the data shows that, in 2014:

- the President and Managing Director received meals drinks, tickets, or rounds of golf more than 50 separate days, with some days including more than one transaction (such as meal(s)/drinks, and golf); payment for a specific meal, drinks, golf or entertainment event listed only AFSC and Broker staff on 35 of these days;
- the Chief Operating Officer received meals/ tickets, or rounds of golf on 14 separate days, with some days including more than one transaction (such as meal(s), and golf) and;
- the Vice President, Innovation and Product Development received meals/drinks, tickets or rounds of golf on more than 45 separate days, with some days including more than one transaction (such as meal(s)/drinks, and golf).

We reviewed the expense listing provided by the Broker for the period January 2012 to February 2016 and noted the following:

- In 2014, approximately \$12,700 related to activities during the 2014 Calgary Stampede and Board Tour, included alcohol, meals, and golf fees (17 AFSC staff and board members, 3 reinsurer's staff, and 4 Broker staff), and gifts to an AFSC executive and Board Member. AFSC also incurred expenses of \$32,141 for these events (including a \$15,000 sponsorship and hotel costs). The total cost was approximately \$44,841.
- In each of the years 2012 to early 2016, senior executives attended events with the Broker where costs were paid by the Broker. These included rounds of golf, theatre tickets, sports admission (e.g. major league ball games), and concert tickets. Other gifts and souvenirs were purchased for two of the senior executives.
- Drinks at an AFSC Board meeting/Christmas dinner/outgoing Chair reception were paid by the Broker.
- Dinner at the Canadian Finals Rodeo for some AFSC executives, staff and Board members were paid by the Broker.

AFSC's Procurement Policy, is more restrictive than the Code of Conduct which allows gifts of nominal value to be exchanged. It is clear from the above examples of Broker expenses that gifts have been accepted in contravention of the policy.

While it may be appropriate for the Broker, under its policies, to pick up the cost for attendance at events and provide gifts to customers, senior executives should adhere to AFSC's Code of Conduct and relevant policies, such as the procurement policy.

In our review of the expenses paid by the Broker and attended by AFSC staff, we noted occasions where two senior executives claimed per diems when meals were paid by the Broker. Based on our analysis for the 2014 and 2015 calendar years, per diems were incorrectly claimed approximately 30 times. We also understand that reinsurers would also incur costs related to meals. We did not compare the trip agendas to senior executive expense claims to verify whether additional meals were claimed when meals had been provided.

## 4.2 Contracting and Procurements

### Summary observations

The Broker contract contained pricing that was different than that submitted by the Broker in its RFP response. The contract was renewed early and included additional services that do not appear to align with the RFP.

We requested documentation related to the monitoring of the Broker contract and were not provided any, as it was not available.

For the Consulting Contract, procurement policy and procedures were not followed in procuring the services of the consultant. Specifically:

- The requirement to obtain a minimum of two written quotes was not followed. The 2011, 2012 and 2014 contracts were sole sourced. Services were provided and paid for beyond the contract end date.
- The requirement to use centralized procurement was not followed.
- Procurement was not conducted through fair, open, competitive and transparent processes, with privilege/favor in selection of the successful vendor.
- Services were provided where there was no contract.

Of the 15 selected vendors with payments between January 1, 2013 and December 31, 2015, all of the contracts for 7 of the vendors were in compliance with the procurement policy. The 8 other vendors had one or more contracts/purchase orders that were not compliant with the procurement policy. Non-compliance with policy and procedures included lack of a competitive process, lack of minimum number of quotes; use of proposals or statements of work instead of contracts and lack of proper amendments.

### Analysis

AFSC's Procurement Procedures include the following requirements:

- A competitive process for acquiring goods over \$25,000 (aggregate),
- A minimum of 2 written quotes for services between \$25,000 and \$100,000,
- A competitive process for services over \$100,000,
- Compliance with applicable legislation such as; procurement chapter of the Agreement on Internal Trade and the Trade Investment (AIT) and Labour Mobility Agreement between Alberta and British Columbia.

We reviewed the contracting process for two vendors referred to in this report as Broker and as Consultant. We reviewed an additional sample of 15 vendors' contracts to determine if they were awarded in accordance with AFSC's procurement policy. We also reviewed the procurement practices related to one lease arrangement, as leases are specifically exempt from AFSC's Procurement Policy and Procedures.

### 4.2.1 Brokerage Services Contract

#### Brokerage Services Contract

An RFP was issued in April 2008 for brokerage services. There were six respondents. The initial contract to the successful proponent (Broker) was awarded for a five year term starting



April 2009.

We compared the RFP, the RFP response and the 2008 contract and noted the following:

- The RFP contract indicated that the respondent's pricing was to be used in the contract. The contract price for services does not agree to the respondent's proposal. Based on information provided, the difference in fees for the four placements from 2012 to 2015 was an increase of approximately \$299,000 for the Broker. We did not calculate the difference for placements from 2009 to 2011.
- Management was not able to explain why the pricing in the response was not used in the contract.
- The number of extensions was not specified in the RFP or the Contract.

We note that the scope of work in the RFP is related to reinsurance. While one item in the scope of work in the RFP, "describe the Respondents additional skills and experience that would benefit AFSC in accomplishing its strategic priorities", is broad in nature, the inclusion of crop and livestock agriculture insurance design expertise in the contract does not appear to align with the RFP scope of work.

There was a renewal option in the RFP and in the contract. The contract was renewed early, in August 2011 for 5 years, commencing on April 1, 2012. When queried as to why the early renewal, we were told that it was due to a new vendor contact being assigned to AFSC. However, while the Contract allowed for key individuals to be specified in Schedule A, none were identified in the 2008 contract. Additional services were also agreed to under the contract at no additional cost. The addition of performance of actuarial certification of specific AFSC programs in the new contract does not appear to align with the RFP.

In addition to placement of reinsurance, the Broker provides other services such as research and product development. There is no additional charge for these services. The Broker has attended AFSC Board meetings and strategy planning sessions and advises AFSC on matters such as the market, new reinsurers in the market, new products or new developments that might interest AFSC. Also, as noted in Section 4.1.2, the broker purchases meals, gifts and entertainment for the senior executives.

We requested documentation related to monitoring of the contract and were not provided any. AFSC Internal Audit also noted in its July 2015 report that "there is no formalized monitoring process for contracts." We note that a new Procurement Policy and related Procedures were issued effective December 1, 2015.

#### *Western Livestock Price Insurance Program (WLPIP)*

We were advised that actuarial services for WLPIP are not included under the brokerage contract; however, there was no RFP for the actuarial services. There was only a statement of work. No quotes were obtained. This is contrary to AFSC's Procurement Procedures as the fees exceed \$25,000; therefore at least two quotes were required. The original statement of work was estimated at \$80,000; actual payments were above \$400,000 with a subsequent refund by the vendor to bring the cost to \$300,400. The requirement to use centralized procurement was also not followed.

## 4.2.2 Consulting Contract

In 2009 AFSC engaged "Consultant" via an RFP. We identified concerns related to the procurement process followed for the RFP and subsequent contracts. We were advised that the first RFP was cancelled by the President and Managing Director and a new one issued. The Consultant was the successful proponent on the new RFP. We reviewed the documents related to the two RFPs and noted the following:

- There were five responses to the first RFP dated April 24, 2009. The Consultant ranked last.
- A notice cancelling the RFP was issued indicating that a new RFP would be issued with a revised scope.
- A new RFP was issued June 4, 2009. This RFP comprised many of the elements of the feasibility study as in the initial RFP although worded differently. A few of the requirements were different in the second RFP. The second RFP excluded the requirement to draft an implementation plan.
- Four individuals evaluated the new submissions. Three of the individuals scoring the responses rated the top three respondents within 6-7 raw points of each other. The President and Managing Director rated the Consultant significantly higher than the other respondents. The difference in the raw scores was 18-20 points (between the top three). When weighted, the point spread on the President and Managing Director's evaluation between the top three responses increased to 34-45 points.
- If the President and Managing Director's scores were removed from the evaluation template, the Consultant would not have ranked the highest.

A change was made to the Procurement Procedures to exclude the President and Managing Director from participating in competitive bidding processes. Subsequent to the 2009 contract term, the Consultant was awarded additional contracts in 2011, 2012 and 2014 on a sole sourced basis. The payments related to these contracts were:

Contract:	Contract Value	Amount paid
2011	69,000.00	72,450.00
2011	Consultant proposal only 38,000 plus expenses	40,455.34
2011	No contract or proposal	9,450.00
2012	84,000.00 plus expenses	119,008.92
2014	94,400.00 plus expenses	78,060.51
<b>Total contract payments</b>		<b>319,424.77</b>

In addition to the above payments, \$19,144 was paid to the consultant for a 25% share of Edmonton Oilers luxury box tickets (for 10 games) in 2011. In addition, detailed receipts for food and beverage at the games were not provided in support of the \$664.54 paid by AFSC.

AFSC's Procurement Procedures require that all goods and/or services be purchased in a centralized manner. Once a contract is awarded, a contract purchase order (PO) is generated which allows for tracking of completion and to ensure that the contract payments do not exceed the amount in the contract. For the three contracts awarded to the Consultant in 2011, 2012 and 2014, there was no contract PO generated at the start of the contract. We noted that payments

were made using a new PO each time a payment was made. This nullified the intended control provided by a contract PO.

As well as not following the required competitive purchasing process, we noted:

- Services were billed and paid after the expiry of the 2011 and 2012 contracts; no contract amendments were completed.
- Contract maximums were exceeded for two contracts and no contract amendments were prepared.
- The final deliverables under one contract did not contain all of the requirements noted in Schedule A of the contract.
- Payments were made for work where there was no contract. In one instance, the Consultant's proposal was signed. In the second instance, there was no contract or proposal.
- Services to be provided under one contract were not clearly defined; therefore it was not possible to determine if all of the services provided related to the contract.
- Some invoices for one contract did not detail the work performed.
- Some of the expenses were not supported by receipts. For one of the contracts, we noted that receipts submitted including alcohol charges were appropriately adjusted by AFSC staff.

#### **4.2.3 Property Selected for Lease Agreement**

In 2013, flooding occurred in High River and AFSC staff were moved to a temporary location under a six month lease. AFSC undertook a search for a replacement property, using criteria that include space (i.e. size) access, and parking requirements.

The property recommended by the Manager, Administrative Services was not selected as the final location for different reasons.

#### **4.2.4 Selected Vendor Contracts**

We selected a sample of 15 vendors and requested the RFP(s) and Contract(s) for the vendors. The total amount paid to each of the vendors exceeded \$100,000 in all but one instance. Therefore, we expected that an RFP would have been issued. While the procedures indicate the thresholds under the trade agreements, both the policy and the procedures indicate a preference for competitive bidding. The procedures effective in 2010 specifically state "competitive bidding process is AFSC's commitment to effective stewardship of funds as well as compliance with applicable legislation and regulations." The 2009 Procurement Policy contains the following three principles, among others:

- Procure goods and/or contracted services (e.g. consulting, professional, IT, janitorial, etc.) in a timely, efficient, ethical manner while maximizing the value received;
- Procurement will be conducted through fair, open, competitive and transparent processes, with no privilege/favor or prejudice in selection of successful vendors;
- Comply with applicable legislation such as; the Procurement Chapter of the Agreement on Internal Trade and the Trade Investment and Labour Mobility Agreement between Alberta and British Columbia.

In addition, while allowing for the purchase of goods and services in certain circumstances, the policy indicates that a failure to anticipate a need or lack of planning is not considered a bona fide emergency.

From the detailed vendor listing for January 2013 to December 31, 2015, we selected 15 vendors. For these vendors, we requested information regarding competitive process, bids or proposals, and contracts. Some of these vendors had more than one contract during the period under review. Of the 15 vendors, all of the contracts for 7 of the vendors were in compliance with the procurement policy. The 8 other vendors had one or more contracts/purchase orders that were not compliant with the procurement policy. There were significant issues of non-compliance with policy and procedures including the lack of a competitive process (either via RFP or a minimum number of quotes); use of proposals or statements of work instead of contracts and lack of proper contract amendments. We also noted incorrect use of a trade exemption in one instance.

Issues raised above regarding non-compliance with AFSC procurement policy and procedures were also identified by AFSC's Internal Audit. AFSC Internal Audit performed a procurement review covering purchases April 1, 2013 to March 31, 2014.

The findings of AFSC's Internal Audit indicated that business units were not consistently complying with procurement policies and procedures. The report also indicated that the actions taken were supported by reasonable business decisions as to why the process was not adhered to and that the purchases were from various departments within AFSC. A second report on contract management in July 2015 found that there is no formalized monitoring for contracts.

We note a revised procurement policy and procedures was approved and became effective December 1, 2015. This policy addressed deficiencies around contract monitoring, vendor management, non-compliance with the procurement policy and procedures. Management indicated steps are being taken to increase awareness with a focus on competitive bidding process and contract/vendor management.