



Canadian Grain Commission
Commission canadienne
des grains



Audit of Licensing and Compliance Final Report

Canadian Grain Commission
Audit and Evaluation Services

August 2012



Table of Contents

| | |
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| Table of Contents | 2 |
| 1.0 Executive Summary | 3 |
| Authority for Audit | 3 |
| Background | 3 |
| Audit Objective | 3 |
| Conclusion | 4 |
| Statement of Assurance | 4 |
| Summary of Recommendations and Management Action Plans | 5 |
| 2.0 Audit Report | 7 |
| Background | 7 |
| Audit Objectives | 7 |
| Audit Scope | 8 |
| Approach and Methodology | 8 |
| 3.0 Findings and Recommendations | 10 |
| Objective 1: To assess the quality of controls over the processing of licence applications, collection of licence fees, monitoring of licensee reporting requirements and processing of licence renewals | 10 |
| Recommendations: | 11 |
| Recommendations: | 12 |
| Recommendations: | 13 |
| Objective 2: To assess the controls over the calculation, management and monitoring, and realization of security posted by licensees | 14 |
| Recommendations: | 15 |
| Objective 3: To assess the efficiency and effectiveness of handling of complaints and inquiries related to licensing | 15 |
| Recommendations: | 17 |
| Objective 4: To determine the quality of controls in place to license, or grant exemptions to, all elevators and grain dealers as required by the <i>Canada Grain Act</i> | 17 |
| Recommendation: | 17 |
| B. Brown, Chief Audit Executive Appendix A – Audit Criteria | 18 |
| Appendix B – Impact of Recommendations | 20 |

1.0 Executive Summary

Authority for Audit

- 1.1 The mission of the Internal Audit function of Audit and Evaluation Services is to provide independent and objective assurance services designed to add value and improve the Canadian Grain Commission's operations. Internal Audit helps the Canadian Grain Commission accomplish its objectives by bringing a systematic, disciplined approach to assess and improve the effectiveness of risk management, control and governance processes.
- 1.2 The audit of Licensing and Compliance was included in the 2011-2012 Audit and Evaluation Services risk-based Audit Plan that was approved by the Commission following a recommendation by the Departmental Audit Committee in May 2011.
- 1.3 The audit was conducted from November 2011 to January 2012 and consisted of interviews with Licensing and Compliance staff and management, as well as examination of protocols and procedures, licensing and security worksheets and documents, and other licensing and compliance records.

Background

- 1.4 A substantial part of the Canadian Grain Commission's Producer Protection Program Activity is carried out by the Licensing, Audit and Compliance Units of Corporate Services. The objectives for this program are achieved through licensing elevators and grain dealers, collecting security from licensees, monitoring licensees' liabilities to producers, and investigating complaints. In accordance with the *Canada Grain Act*, generally, subject to exceptions set out in the *Canada Grain Act* or exemptions that may be made by the Commission, anyone who deals in or handles grain grown in western Canada must be licensed by the Canadian Grain Commission.
- 1.5 Licensing is considered a Canadian Grain Commission mission critical function and because of its high inherent risk, has been of interest to Executive Management and Commissioners. Compliance has been included in this audit as a complementary function, which is closely integrated with the activities of the Licensing Unit, while the Licensee Audit function has been specifically excluded from the internal audit scope.

Audit Objective

The objectives of this audit were:

- 1.6 To assess the quality of controls over the processing of licence applications, collection of licence fees, monitoring of licensee reporting requirements and processing of licence renewals.
- 1.7 To assess the controls over the calculation, management and monitoring, and realization of security posted by Canadian Grain Commission licensees.

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- 1.8 To assess the efficiency and effectiveness of handling of complaints and inquiries related to licensing.
- 1.9 To determine the quality of controls in place to license, or grant exemptions to, all elevators and grain dealers as required by the *Canada Grain Act*.

Conclusion

- 1.10 Licensing and Compliance are mission critical functions for the achievement of the Canadian Grain Commission's mandate. In recent years, procedures in the area have been documented and monitoring increased. This audit determined that controls in place are of a high quality overall, key processes are now well-documented, solid monitoring is undertaken of security requirements, and producer complaints are handled appropriately. We also noted that, although unlicensed operations continue to exist, considerable efforts in recent years have successfully improved the classification and licensing of numerous operations previously functioning outside of the *Canada Grain Act*.
- 1.11 The following report contains recommendations to improve certain administrative procedures and financial controls as well the controls over industry compliance, the most notable of which are:
- Further pursuing compliance with the *Canada Grain Act* by exercising the authorities granted by the Canada Grain Act to investigate and/or sanction operations that are in contravention (ref: 3.39);
 - Determine whether the insurance requirement is necessary as part of the Canadian Grain Commission's producer protection mandate and, if so, obtain updated insurance policies for each required licensee in order to monitor the insured value (ref: 3.21, 3.22);
 - Document procedures and criteria for making key decisions in the licensing process (ref: 3.6);
 - Improve financial controls over the collection and recording of license fees (ref: 3.13, 3.14).

Management has established appropriate action plans for each recommendation. Additional details on the results of the audit are contained in this report.

Statement of Assurance

- 1.12 In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions as they existed at the time, as described in the Audit Scope, against pre-established audit criteria. The opinion is applicable only to the entity examined. This audit engagement was planned and conducted to be in accordance with the Internal Auditing Standards for the Government of Canada.

Summary of Recommendations and Management Action Plans

1.13 The following is a summary of recommendations contained in this report with Management's action plans to address the topics identified:

| Reference | Recommendations | Management Action Plans |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High Impact | | |
| 3.39 | We recommend that the Canadian Grain Commission further pursue compliance with the <i>Canada Grain Act</i> by exercising the authorities granted by the Canada Grain Act to investigate and/or sanction operations that are in contravention. This would further the Canadian Grain Commission's commitment to producer protection by demonstrating the consequences of failing to obtain a licence (or exemption) under the <i>Canada Grain Act</i> . | In 2005, a Licensing Compliance Review was undertaken and many companies cooperated and became licensed. As mentioned in this Report, the Commission developed a protocol regarding the approach to unlicensed grain operations. A review is now underway as described in the protocol. Through consultations regarding potential legislative changes, the Canadian Grain Commission has received recommendations to consider introducing changes to make use of administrative penalties, such as the " <i>Administrative Monetary Penalties Act</i> " (or AMPs), in order to help promote compliance with the <i>Canada Grain Act</i> . |
| Medium Impact | | |
| 3.6 | We recommend that management document formal procedures/criteria for making key decisions in the licensing process, including, for example: licence classification, form authorization, and security calculation (initial and renewal). In some cases this may simply involve consolidating disparate sources of information and Commission decisions into documents that can be understood and easily referenced by Licensing staff. | Agree with recommendations. The Licensing Team will develop internal procedure documents that explain the decision making processes; target date for completion of protocols is December 31, 2012. |
| 3.13 | We recommend that a formal reconciliation process (for instance, semi-annual) with Finance be implemented to ensure accuracy and completeness of financial information in both Units' records. | Licensing will work with Finance to develop this process by December 31, 2012. |
| 3.21 | We recommend that Licensing obtain updated insurance policies for each required licensee and monitor the insured value of grain against producer liabilities (for primary elevators) or stocks in store (terminal/transfer elevators) to assess sufficiency of insurance at all times. | Management plans to review the insurance requirement and bring forward the audit recommendation and the insurance review findings to the Commission with recommendation for future action by September 30, 2012. |
| 3.22 | We recommend that Management, in | A policy review will be undertaken for |

| Reference | Recommendations | Management Action Plans |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | consultation with the Commission and Legal Counsel, make a final determination whether the insurance requirement is necessary as part of the Canadian Grain Commission's producer protection mandate. If not required, Licensing should remove reference to it on the application material. With either determination, consideration should be given to making appropriate reference to the insurance requirement in future directions from the Commission. | decision by the Commission by September 30, 2012. |
| 3.35 | <p>We recommend that:</p> <p>a) All complaints and inquiries handled by the Compliance Unit be recorded in the Licensing Bonding Financial database on a timely basis.</p> <p>b) More significant, recurring complaints or issues be highlighted at the weekly meetings, even if they were resolved as of the time of the meeting.</p> | Agree with recommendations. Since the audit, these have been implemented. |
| Low Impact | | |
| 3.7 | We recommend that management enhance its internal quality management system by implementing a monitoring and review function. The monitoring activities should be designed such that they do not create an undue burden on staff to carry out but still support overall compliance. | Agree with recommendation. Licensing is exploring how they will monitor whether they are adhering to the various Protocols and whether they are still relevant. This will be complete by March 31, 2012. |
| 3.14 | We recommend that the fee book be enhanced so that fees invoiced (receivable), and fee payments received can be verified in one centralized location. Management should periodically review the fee book to ensure it is complete and accurate. | Licensing will work with the Canadian Grain Commission's Finance department to review the current process, to be completed by December 31, 2012. |
| 3.29 | <p>We recommend that management:</p> <p>a) Implement a periodic (e.g. annual or semi-annual) review of the documentation currently secured by the Canadian Grain Commission. This would involve ensuring all security documents are current, the files are complete, and the value of the security instruments match the values recorded in the Licensing Bonding Financial database for each licensee.</p> <p>b) Schedule a consultation with the Canadian Grain Commission Security Officer to determine if files and security documents are properly secured.</p> | <p>a) Agree with recommendation to review security in the vault and will do so on an annual basis commencing by March 31, 2013.</p> <p>b) Agree with recommendation. Consultation will be scheduled for Fall 2012.</p> |

2.0 Audit Report

Background

- 2.1 The Licensing and Security program is part of the Canadian Grain Commission's mandate of providing protection for Canadian grain producers. The *Canada Grain Act* requires anyone who operates an elevator, handles or is a dealer for grain grown in western Canada to be licensed by the Canadian Grain Commission; exemptions are granted by the Canadian Grain Commission in specified circumstances. Licensing is part of the framework for the application of the Canada Grain Act and thus, contributes to the maintenance of quality standards for Canadian grain, and provides a method for producers to settle grade disputes with primary elevators referred to as "subject to inspector's grade and dockage". Licensing helps to maximize payments to producers after bankruptcy or receivership (or refusal to pay) by the posting of security by licensees.
- 2.2 Licensing and Compliance, along with the associated Audit function, are part of the Producer Protection Program Activity (Activity 4 of the Program Activity Architecture), within the Corporate Services Division. The Licensing Unit performs several key functions, including licensing elevators and grain dealers, calculating and collecting security amounts from licensees, processing producer liability reports, and performing an annual licence renewal for each licensee. Licensing is also responsible for the realization of security in situations when a licensee fails to meet its payment and delivery obligations to producers (i.e. payment of the security instrument to the beneficiary [Canadian Grain Commission] for payment to eligible producers).
- 2.3 The Compliance Unit's main role is investigating complaints lodged by producers, licensees, or others related to the Canada Grain Act, the *Canada Grain Regulations* or Canadian Grain Commission policies. The Unit also follows up with licensees when Licensing or Audit do not receive required submissions in a timely manner, and carries out some compliance functions for the Canadian Grain Commission's Statistics Unit (not in scope for this audit). They also follow up with licensees who have exceeded their security level and may require additional security to be posted (critical function). Compliance issues that are found to be contraventions of the Canada Grain Act or the regulations are reviewed in consultation with legal counsel and may be referred to the Commissioners as appropriate.

Audit Objectives

The objectives of this audit were:

- 2.4 To assess the quality of controls over the processing of licence applications, collection of licence fees, monitoring of licensee reporting requirements and processing of licence renewals.
- 2.5 To assess the controls over the calculation, management and monitoring, and realization of security posted by licensees.

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- 2.6 To assess the efficiency and effectiveness of handling of complaints and inquiries related to licensing.
- 2.7 To determine the quality of controls in place to license, or grant exemptions to, all elevators and grain dealers as required by the Canada Grain Act.

The criteria related to the specific objectives of the audit are contained in Appendix A – Audit Criteria.

Audit Scope

- 2.8 The audit included:
- Review of Licensing and Compliance protocols and procedures, meeting minutes, samples of licensee files and documentation, and handling of non-licensed elevator/grain dealer situations;
 - Review of Compliance complaint/investigation files;
 - Examination of data systems including the Licensing Bonding Financial database, Hummingbird, and financial information; and
 - Interviews with Licensing and Compliance management and staff.
- 2.9 The audit focused specifically on Licensing and Compliance and excluded testing of the activities of the related Audit function within Corporate Services.
- 2.10 Samples were selected from the period of November 2010 to November 2011.
- 2.11 The recommendations and management action plans from the March 31, 2005 Program Evaluation/Licensee Function Review were reviewed to determine their current status.

Approach and Methodology

- 2.12 The audit examination phase was executed in December 2011 and focused on the daily activities within the Licensing and Compliance Units, as well as handling of special circumstances such as non-compliance with the *Canada Grain Act* or a licence 'non-renewal' situation. Procedures performed during the examination phase included:
- Review of a sample of initial and renewed licensees, including fee collection, security calculation, and documentation submission.
 - Discussion with management and staff regarding calculation, recording, and monitoring of security amounts, as well as follow-up on security shortfalls.
 - Review of protocols and procedures and walk-through of selected activities with management and staff.

2.13 At the conclusion of the examination phase, recommendations for management were developed in areas where opportunities for control improvements were identified. Recommendations in this report have been categorized to reflect their potential impact on Corporate Services. The criteria established for determining the impact are outlined in Appendix B. The impact is indicated following the text of each recommendation.

3.0 Findings and Recommendations

Objective 1: To assess the quality of controls over the processing of licence applications, collection of licence fees, monitoring of licensee reporting requirements and processing of licence renewals

Licensing Applications and Renewals

The initial step for all potential licensees is to submit a Mode of Operations questionnaire. If it is determined that licensing is required from the information submitted, the Licensing Unit sends an application package appropriate for the classification. The five licensing classes—primary, process, terminal, and transfer elevator, and grain dealer—are broadly defined in the *Canada Grain Act*. In some cases, the Commission has established official interpretations to be used to determine the correct licence class. However, the actual classification of an applicant can require judgement in certain situations and consultation with legal counsel may be sought to ensure correct classification. For instance, an elevator may function as a primary elevator but also process grain.

Similarly, the *Canada Grain Regulations* outline the requirements for the forms that licensees must use when purchasing grain. These forms—grain receipt, elevator receipt, and/or cash purchase ticket—must be authorized by Licensing before the issuance of a licence or licence renewal. The authorization process is not documented and, therefore, includes some judgement.

Over the past several years, the Licensing, Compliance and Audit Units have implemented a number of formal Commission-approved protocols describing the required steps for performing a variety of critical functions in Licensing, Compliance, and Audit. These documents were developed, in part, to respond to the recommendations in the 2005 Program Evaluation/Licensee Function Review. At that time, implementation of a formal quality management system, such as ISO, was under consideration but was not pursued.

The protocols are valuable resources providing guidance on several key processes. They are supplemented by numerous detailed procedural documents for specific tasks, most of which are performed by the Licensing Assistants. However, there is a lack of formal documentation surrounding the criteria for making decisions directly related to issuance of licences, such as classification and authorization of forms, as discussed above, or calculating required security. These decisions largely rely on the experience and knowledge of senior staff and management of the Licensing function.

In lieu of implementing a quality management system, Licensing, Compliance and Audit have created a solid basis for an internal quality management system including the above-noted protocols and procedures, as well as various checklists, meeting minutes, documentation standards, and a file management system (paper and electronic). A more complete quality management system would also include a monitoring or review function

to determine if staff are in fact complying with the protocols and procedures. There would also be a periodic review of the protocols and procedures to ensure they are current, and any obsolete instructions would be deleted or archived.

Recommendations:

We recommend that management document formal procedures/criteria for making key decisions in the licensing process, including, for example: licence classification, form authorization, and security calculation (initial and renewal). In some cases this may simply involve consolidating disparate sources of information and Commission decisions into documents that can be understood and easily referenced by Licensing staff.

(impact: medium)

We recommend that management enhance its internal quality management system by implementing a monitoring and review function. The monitoring activities should be designed such that they do not create an undue burden on staff to carry out but still ensure overall compliance.

(impact: low)

Licence Fees

Licence fees are invoiced by way of a letter to the licensee, which describes the required documents and fees for either initial licensing or licence renewal. As the outstanding balance at any given time is not considered material, no receivable amount is set up in the Canadian Grain Commission's general ledger. However, Licensing uses a series of spreadsheets to monitor outstanding submission requirements, including outstanding fees. Licences are not issued or renewed until certain requirements are met, including the submission of the correct fees.

The majority of licensees submit their fees by cheque directly to the Licensing Unit. A Licensing Assistant records the payment in the licensee's summary document, on the spreadsheet tracking forms, and in the fee book—a spreadsheet set up to record the collection and application of fees. A copy of the cheque is also stored electronically in the document management program. The cheque is submitted to Canadian Grain Commission Finance on the daily Cash Receipt Register, which contains information about the account and the licensee to whom the fee is to be applied.

Based on our review of a sample of licences and discussions with management, periodic reconciliation between the Licensing records and Finance to verify that fees for all licences issued are collected is not being performed. Specifically, we noted the following with respect to collection of licensing fees in our sample:

- An example was discovered where a fee was recorded in the fee book by Licensing that was attributed to a different licensee by Finance.
- We also found an instance where a new licence was issued and the fee had been collected. However, the terms for the licence were not communicated to Finance in a timely manner, with the result that Finance was unable to properly amortize the revenue.

Within Licensing's own record structure, fee collection could be verified for all licences sampled; however, multiple sources of information are required in order to confirm that licence fees have been paid. With respect to the fee book spreadsheet, we noted that:

- The method of recording fee payments (multiple receipts for one licence are recorded in the same cell) makes it difficult to reconcile the fee book to the licences issued or to perform analysis on the completeness and integrity of the data recorded in the spreadsheet.
- The date of the cash receipt register referenced in the fee book is not recorded on the spreadsheet, adding extra steps when locating specific payments.
- There were some minor errors that had not been reviewed and corrected.

It is apparent that Licensing staff are diligent in recording fee payment information. The tools currently being used could be improved to increase efficiency and allow management the ability to analyze and verify payment information, and to reconcile their own records to Finance. Given the current Canadian Grain Commission User Fees proposal, which would see licence fees increase, streamlined tracking and accurate recording of fee receivables and payments may become even more important in the future.

Recommendations:

We recommend that a formal reconciliation process (for instance, semi-annual) with Finance be implemented to ensure accuracy and completeness of financial information in both Units' records.

(impact: medium)

We recommend that the fee book be enhanced so that fees invoiced (receivable), and fee payments received can be verified in one centralized location. Management should periodically review the fee book to ensure it is complete and accurate.

(impact: low)

Licensing Requirements

There are a number of submission requirements for initial and renewing licensees, in addition to those already discussed in Objective 1 and the security requirements discussed in Objective 2. An Application Checklist is sent to potential/initial licensees or obtained from the Canadian Grain Commission's website. Annual submission requirements for renewals are outlined in a letter to licensees sent three months prior to their renewal deadline.

One of the requirements for primary, terminal or transfer elevators is to submit a certified copy of its insurance policy showing that it is fully insured against loss or damage to all grain stored in or being loaded in/out of the elevator. The policy must include three clauses prescribed by the Canadian Grain Commission intended to protect the interest of producers or other holders of elevator receipts (in the case of terminal or transfer elevators). This is separate from any payables insurance the licensee may have as part of its security requirements (see Objective 2).

Although copies of the insurance policies are collected at the time of initial licensing, follow-up to obtain copies of policy renewals has been inconsistent and is not part of the standard licence renewal process. Consequently, the policies on file for many licensees have expired.

There is no ongoing monitoring of the value of the insurance coverage against the elevator's producer liabilities at a given time. The purpose of requiring elevators to be fully insured is to ensure producer protection over and above the value of security held by the Canadian Grain Commission in cases where inventory is destroyed. This is particularly important for primary elevators, where inventory can form part of the licensee's security, which, if destroyed, could no longer be sold or re-delivered to cover the licensee's liabilities at that time. Given this purpose, it would follow that Licensing should obtain copies of the policies annually and use them to monitor the value of the insurance in relation to the elevator's producer liabilities.

Although the **Canada Grain Act** does not require it, the Act provides the Canadian Grain Commission with the authority to require an elevator to carry insurance. The **Canada Grain Regulations** are silent on this topic. Past discussion between Licensing, Policy, and Legal has focused on whether it is the Canadian Grain Commission's responsibility to "police" insurance policies or whether it is simply a good business practice for the licensee to insure its inventory against loss or damage. In the latter case, it would not be Licensing's responsibility to become involved in a licensee's insurance decisions.

While this issue has not been settled within Corporate Services, currently Licensing states in its application material that certain licensees are required to obtain insurance; therefore, Licensing should be monitoring both the value of insurance and policy expiration.

Recommendations:

Because the Canadian Grain Commission application material currently states the insurance requirement, we recommend that Licensing obtain updated insurance policies for each required licensee and monitor the insured value of grain against producer liabilities (for primary elevators) or stocks in store (terminal/transfer elevators) to assess sufficiency of insurance at all times.

(impact: medium)

We recommend that management, in consultation with the Commission and Legal Counsel, make a final determination whether the insurance requirement is necessary as part of the Canadian Grain Commission's producer protection mandate. If not required, Licensing should remove reference to it in the application material. With either determination, consideration should be given to making appropriate reference to the insurance requirement in future direction from the Commission.

(impact: medium)

Objective 2: To assess the controls over the calculation, management and monitoring, and realization of security posted by licensees

Security Calculation, Management and Monitoring

Security calculations are required for new licensees prior to initial licences being issued. The process to determine an initial security amount sufficient to cover the elevator or grain dealer's producer liabilities at any given time requires the use of a number of estimates. Licensing has attempted to mitigate the risk of incorrect calculations by implementing formulas where possible, followed by management/peer review for reasonableness, and judgemental adjustments if required. A number of additional detective controls, mostly performed by the Audit Unit, are in place to monitor the accuracy of the initial security calculation once the licence has been issued. The security level is reviewed prior to renewal, taking into account any security shortfalls throughout the licence year and information that the licensee may provide. Adjustments are made accordingly.

Throughout the year, monitoring controls are in place to minimize the risk of a situation where licensee's producer liabilities exceed the posted security. Several mechanisms are used to address potential shortfalls, including investigation by Compliance Officers, issuance of short-term licences at renewal time, and discussion with the Commission. Review with the Commission may result in further monitoring actions by Licensing/Compliance, requirement of additional security, or in rare instances, suspension or revocation. A licence could also lapse or expire, and not be renewed. The overall monitoring efforts of the Licensing and Compliance units, assisted by the activities of the Audit unit, were found to be consistently and effectively managed and carried out.

Licensees post security in the form of letters of credit or guarantee, bonds, payables insurance or cash deposits. In all cases, there are specific clauses which ensure that only the Canadian Grain Commission may access the funds during the time period in which the instrument is in effect. When security documents are received by the Licensing Assistants, they enter the value into the Licensing Bonding Financial system (database/reporting system used to monitor security posted against monthly liability reports), record the amount in the licensee's summary Word document, scan the document into the document management system, and file the original in a secure location.

Management indicated that no thorough review of the documentation securely stored and reconciliation to the recorded security in the Licensing Bonding Financial database has been performed for several years. Although our testing of a sample of security amounts did not identify any discrepancies between the Licensing Bonding Financial database and the original documents, we did note that for 4 of the 5 cash deposits in the sample, the original, signed acknowledgment of receipt of funds and acceptance of the terms were not filed in the secure location.

Two significant risks that could arise in the absence of a periodic review and reconciliation of the security documents are: 1) original document is missing and a situation arises where security must be realized or 2) security amount recorded in Licensing Bonding Financial

database does not match original documentation and therefore cannot be accurately monitored against liabilities.

We were also informed that the physical security arrangement for the security instruments as well as other confidential licensee documents has not been reviewed for some time. An informal consultation with the Security Officer has been held but no assessment has been done. Given the nature of the documents being stored by the Licensing Unit, physical security should be evaluated periodically to ensure adequate standards are being maintained by staff.

Recommendations:

We recommend that management:

- a) Implement a periodic (e.g. annual or semi-annual) review of the documentation currently secured by the Canadian Grain Commission. This would involve ensuring all security documents are current, the files are complete, and the value of the security instruments match the values recorded in the Licensing Bonding Financial database for each licensee.
- b) Schedule a consultation with the Canadian Grain Commission Security Officer to determine if files and security documents are properly secured.

(impact: low)

Security Realization

Situations where a licensee's security must be realized are rare. Licensing's main responsibilities with respect to security realization include determining whether realization is required, authorizing and requesting release of the funds to the Canadian Grain Commission, and authorizing return of any unused funds to the financial institution. Other processes related to security realization and de-licensing are carried out by the Audit Unit; the portions of the process that are completed by Licensing were found to be managed effectively.

Objective 3: To assess the efficiency and effectiveness of handling of complaints and inquiries related to licensing

Complaints and inquiries related to licensing are managed by the Compliance Officers. In general, complaints and inquiries come from producers and are received through the Canadian Grain Commission's toll free line, the Compliance Officers' direct lines, trade shows and letters, or via Canadian Grain Commission employees or Canadian Grain Commission regional offices. Simple, informational inquiries are handled immediately by the Compliance Officers and do not require documentation. More complex inquiries or complaints may require consultation with other areas of the Canadian Grain Commission such as the Licensing and Audit Units, or the Industry Services Division.

The primary documentation system for the Compliance Officers is the Licensing Bonding Financial database. Fields have been created where complaint details can be entered

and the status can be updated. Significant complaints also need to be recorded in the Hummingbird document management system because the Licensing Bonding Financial database does not have the capability to store documents, emails, meeting minutes, etc. Examples of significant complaints are those that have been submitted in writing and/or require investigative action by the Canadian Grain Commission, or multiple similar complaints about a licensee.

Although it is sometimes obvious that a complaint is “significant” and therefore warrants documentation and reporting, complaints of a more minor nature are not always recorded in the Licensing Bonding Financial database by the Compliance Officers. The Compliance Officers have found that the Licensing Bonding Financial database’s complaint entry functionality has limitations so it is not consistently utilized (a project is currently underway to improve the overall functionality of the Licensing Bonding Financial database). Nevertheless, all complaints should be documented, regardless of the significance. This is important for several reasons:

- Significance is subjective, and a seemingly minor complaint may have broader implications when considered in a different context. For instance, Licensing or Audit staff may have additional, relevant information about a licensee, or they may obtain additional information in the future which can then be related back to past complaint information.
- A pattern of complaints might emerge over time, increasing the importance of the individual complaints.
- The Audit Unit generates a report from the Licensing Bonding Financial database on complaint data which may be considered in a review. Audit may need to refer to the detailed information to help understand the nature of complaints.
- Complaints are reported to the Commission to address a licensing issue related to individual licensees.
- Response to producer complaints is one of the Canadian Grain Commission’s stated performance indicators (2010-2011 Departmental Performance Report). Incomplete data inhibits the ability to assess whether the target of “zero unresolved or unaddressed complaints” is being met.

To facilitate communication between the Licensing, Compliance, and Audit Units and the Manager, Policy, Planning and Producer Protection, weekly meetings are scheduled and include a standing agenda item for complaints. This is an especially important form of communication with regard to complaints since the Compliance Officers work offsite and do not have daily interaction with the rest of the group. During the audit period tested, these weekly meetings were not held consistently, but within the 22 meetings held, only a small number of complaints were recorded in the minutes. Complaints that were resolved between meetings and were not “active” at the time were not reported. Therefore, the number of complaints discussed and recorded in the minutes is not reflective of the actual number of complaints received. This could result in important information being missed, for the reasons outlined above (see 3.33). More complete documentation would assist in the reporting process.

Recommendations:

We recommend that:

a) All complaints and inquiries handled by the Compliance Unit be recorded in Licensing Bonding Financial database on a timely basis.

b) More significant, recurring complaints or issues be highlighted at the weekly meetings, even if they were resolved as of the time of the meeting.

(impact: medium)

Objective 4: To determine the quality of controls in place to license, or grant exemptions to, all elevators and grain dealers as required by the *Canada Grain Act*.

Part III of the *Canada Grain Act* outlines the requirements for licences and licensees that are to be enforced by the Canadian Grain Commission. Further clarifications are provided in Part 3 and other parts of the *Canada Grain Regulations*. Licensing and Compliance have structured their activities to correspond to the requirements of the *Canada Grain Act* and the *Canada Grain Regulations*. This includes seeking to have elevators or grain dealers handling or dealing in the 21 official grains grown by western producers properly classified and licensed appropriately.

In some situations, an elevator or grain dealer does not require a licence (for instance a grain dealer who does not deal in western grain) or is exempted from licensing (such as a feed mill). However, there are other situations where an elevator or dealer is unlicensed and may be either intentionally or unintentionally in contravention of the *Canada Grain Act* for various reasons. Part of Licensing and Compliance's mandate is to identify these operations and take steps to have them licensed or exempted as appropriate.

In January, 2012 the Commission developed a protocol regarding the approach to unlicensed grain operations. Despite increased and successful efforts by the Canadian Grain Commission over recent years, there remain unlicensed grain companies although some have initiated action towards becoming licensed. The lack of consequences for remaining in contravention of the *Canada Grain Act* may be a contributing factor to the reluctance of some companies to become licensed. It should be noted that the significant majority of western Canadian grain flows through licensed facilities.

Recommendation:

We recommend that the Canadian Grain Commission further pursue compliance with the *Canada Grain Act* by exercising the authorities granted by the *Canada Grain Act* to investigate and/or sanction operations that are in contravention. This would further the Canadian Grain Commission's commitment to producer protection by demonstrating the consequences of failing to obtain a licence (or exemption) under the *Canada Grain Act*.

(impact: high)

We express our appreciation to Licensing and Compliance staff and management for their assistance during the course of this audit.

This audit has been reviewed with:

C. Jaworski, Manager, Policy, Planning, and Producer Protection

Audit & Evaluation Services Contact:

B. Brown, Chief Audit Executive

Appendix A – Audit Criteria

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|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Audit Objective #1: To assess the quality of controls over the processing of licence applications, collection of licence fees, monitoring of licensee reporting requirements and processing of licence renewals.</p> | <p>Audit Criteria #1: Audits are properly planned and executed, with a scope and audit criteria consistent with the objectives of the Quality Management System audits.</p> |
| | <p>Audit Criteria #2: Renewal notices are sent and renewal applications are processed prior to the expiration of the current licence term.</p> |
| | <p>Audit Criteria #3: All applications and renewals are properly approved before a licence is issued.</p> |
| | <p>Audit Criteria #4: Correct licensing fees are invoiced, collected, and recorded on a timely basis.</p> |
| | <p>Audit Criteria #5: Licensee reporting requirements are monitored to ensure licensees continue to meet their licensing requirements.</p> |
| <p>Audit Objective #2: To assess the controls over the calculation, management and monitoring, and realization of security posted by licensees.</p> | <p>Audit Criteria #6: The value of security obtained from a licensee is matched (within reason) to the level of outstanding producer liabilities at any given time.</p> |
| | <p>Audit Criteria #7: Security calculations are based on consistent formulas and are reviewed and approved by management.</p> |
| | <p>Audit Criteria #8: Monthly liability reports (or other required documentation) are collected, recorded, and analyzed for each licensee. Follow-up is initiated for missing reports or unsatisfactory results.</p> |
| | <p>Audit Criteria #9: All forms of security are accurately recorded and tracked in Canadian Grain Commission records.</p> |
| | <p>Audit Criteria #10: Security documents and cash are physically secured, access is restricted, and existence/ completeness is verified periodically.</p> |
| | <p>Audit Criteria #11: In situations where a licensee's posted security becomes payable to producers, the Canadian Grain Commission seeks to determine identity of eligible producers who might be paid out of security.</p> |
| | <p>Audit Criteria #12: Security instruments that are converted to cash are accurately recorded in the general ledger, as are related liabilities/payments.</p> |
| <p>Audit Objective #3: To assess the efficiency and effectiveness of handling of complaints and inquiries related to licensing.</p> | <p>Audit Criteria #13: Complaints and inquiries are responded to in a timely manner.</p> |
| | <p>Audit Criteria #14: Complaints and inquiries, including resolution, are documented in an organized and efficient manner.</p> |
| | <p>Audit Criteria #15: Complaints and inquiries are elevated to the appropriate responsibility level within the organization (e.g. Head, Manager, Director, etc.) when required.</p> |
| <p>Audit Objective #4: To determine the quality of controls in place (comments on page 4) elevators and grain dealers are licensed or exempted as required by</p> | <p>Audit Criteria #16: Licensing and exemption decisions are made in accordance with <i>Canada Grain Act</i> and <i>Canada Grain Regulations</i> requirements and are properly approved.</p> |
| | <p>Audit Criteria #17: The Canadian Grain Commission is aware of and actively pursuing licensing or exemption of currently unlicensed facilities and grain dealers.</p> |

Appendix B – Impact of Recommendations

The following categories have been applied to each recommendation within this report. Categories are defined as follows:

High

Recommendation:

- will improve management controls or control environment for the overall program/process/area/division/etc.
- may take considerable effort to implement within the operational environment or may involve a significant change
- may have a significant financial impact
- likely results in assumption of a substantial risk if *not* implemented (e.g. decreased efficiency, higher risk of errors, lost cost savings opportunities)

Medium

Recommendation:

- will improve management controls in that area
- will improve efficiency and/or effectiveness of operations in that area
- is not likely to require a significant effort to implement
- may have some financial impact; could be a less significant item that could accumulate over time to create a larger impact

Low

Recommendation:

- promotes a good management practice
- likely improves day-to-day work experience
- likely requires minimal effort to implement
- will have limited financial or operational impact