Farm Credit Canada

Report presented to the Board of Directors

September 2007

Special Examination Report

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

Table of Contents

Farm Credit Canada
Special Examination Report—2007

To: The Board of Directors of Farm Credit Canada

Special Examination Opinion

Under Part X of the *Financial Administration Act* (FAA), Farm Credit Canada (the Corporation) is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

The FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.

Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from February 2007 to May 2007, there were no significant deficiencies in the systems and practices we examined.

We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 30 January 2007. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.

The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in Appendix A.

We conducted our examination in accordance with our plan and with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on the work of internal audit, including field audits of AgProduction, AgValue, and Alliances carried out in 2006, the Review of the Corporate Audit Function in 2006, and the Treasury Audit of 2007.

In our opinion, based on the criteria we established for the examination, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined. However, during the course of our review, we did note a limited number of management recommendations and decisions that were not supported by complete and adequately documented business cases and/or did not respect contracting policies or procedures generally followed in the public sector. These issues are more fully described in the third part of this report, under Issues of Concern.

The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
15 June 2007

Farm Credit Canada
Special Examination Report—2007

Main Points

What we examined

Farm Credit Canada (FCC) is Canada's largest agricultural term lender, supporting a broad range of agricultural enterprises across Canada. The purpose of the Corporation is to enhance rural Canada by providing business and financial products and services to primary producers and farming related businesses. The major focus of the Corporation's activities is on serving the needs of primary producers.

Our Special Examination of FCC looked at the systems and practices we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and effectively, and its operations are carried out effectively. The areas of FCC that we examined were lending operations, credit risk and portfolio management, environment, treasury operations, governance, strategic planning, performance reporting, marketing and communication, human resources management, integrated risk management, and information technology.

The purpose of the special examination was to provide the Corporation's Board of Directors with an independent, objective assessment of the adequacy of the Corporation's systems and practices that address its statutory objectives.

Why it's important

The purpose of the Corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are related to farming. A significant deficiency in any of the above-named systems and practices that we examined could jeopardize the Corporation's ability to achieve this purpose.

What we found

- We found no significant deficiencies in the systems and practices that we examined. We noted that FCC has improved its practices in a number of areas since our last special examination in 2002.

In other areas, we have made recommendations to help it improve further.

- We found that a limited number of recommendations and decisions were not supported by complete and adequately documented business cases and/or did not respect contracting policies or procedures generally followed in the public sector. These issues are more fully described in the third part of this report, under Issues of Concern.
- We found that FCC is doing well in its core operations. This includes lending operations, credit risk and portfolio management, environment and treasury operations. We did note some areas for improvement, as described in first part of this report, under Core Operations.
- We also examined areas that support the overall organization, such as governance, strategic planning, performance reporting, marketing and communication, human resources, integrated risk assessment and information technology. We found that FCC is doing well in these areas. However, we did note some areas for improvement, which are presented in the second part of this report, under Overall Organization.

Overview of Farm Credit Canada

Background

1. Farm Credit Canada (FCC, or the Corporation) is a financially self-sustaining federal Crown corporation, wholly owned by the Government of Canada. It reports to Parliament through the Minister of Agriculture and Agri-Food. The Corporation provides primary producers, as well as suppliers and processors along the agricultural value chain, with customized loans and business services.

2. FCC has served Canadian agriculture since 1959. Operating out of 100 offices located primarily in rural areas, the Corporation continues to expand to meet the changing needs of the industry. It offers customers a variety of customized debt and equity financing products, insurance, management software, information and education.

3. FCC lends to all sectors of agriculture across Canada, serving more than 43,000 primary producers, suppliers and processors along the agricultural value chain. In addition, the Corporation serves approximately 9,000 customers through FCC's partners (agricultural or financial organizations) and delivers training and publications to 50,000 participants and subscribers.

4. FCC's substantial loan portfolio grew to $13.2 billion as of 30 September 2006, its 13th consecutive year of portfolio growth. Its net income increased to $169.6 million in 2006, from $68.7 million (before income tax) in 2002. It paid a dividend of $5.3 million to the federal government in the 2005–06 fiscal year. Remaining profits were reinvested in the Corporation to develop products and services that benefit the agricultural industry.

Mandate and legislative powers

5. Farm Credit Canada's roots date back to 1927, when the Government of Canada established the Canadian Farm Loan Board to provide farmers with long-term mortgage credit. In 1959, the *Farm Credit Act* established FCC as the successor to the Canadian Farm Loan Board.

6. On 2 April 1993, the *Farm Credit Corporation Act* was proclaimed into law, replacing the *Farm Credit Act* and the *Farm Syndicates Credit Act*, which were repealed. The Act provided FCC with an expanded mandate that included broader lending and administrative powers.

7. On 14 June 2001, the *Farm Credit Canada Act* received Royal Assent. Under the new Act, the Corporation was renamed Farm

Credit Canada and was able to offer a broader range of services to producers and agribusiness operators. The Corporation's mandate is

> to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the Corporation shall be on farming operations including family farms.

Governance structure

Board of Directors

8. The Government of Canada, FCC's shareholder, appoints the Corporation's Board of Directors. The Minister of Agriculture and Agri-Food appoints board members, who serve two- or three-year terms and may be reappointed. The Governor in Council appoints the Chairman of the Board as well as the President and Chief Executive Officer.

9. The Board is responsible for governing the Corporation. Its role is to ensure that FCC's business activities serve the best interests of both the Corporation and the Government of Canada, as required under the *Farm Credit Canada Act* and *Financial Administration Act*.

10. The President is also the Chief Executive Officer (CEO), whose role is to supervise the business of the corporation. In 2007, a new President and CEO will replace the incumbent, whose term expires in November. Written profiles and charters delineate the roles and responsibilities of the Chair, Board members, the CEO, and all Board committees.

Senior management

11. With the approval of the Board of Directors and Chief Executive Officer, the Corporation's Senior Management Team sets corporate priorities and works to achieve the Corporation's strategic objectives, consistent with its mandate and approved strategic direction.

12. Senior managers are responsible for the Corporation's day-to-day activities, including maintaining reliable, accurate and timely financial and non-financial information; ensuring that adequate internal systems and practices are in place; and complying with legislative and other authorities. Senior managers are also responsible for the preparation, integrity, and objectivity of publicly reported information.

Managers are accountable to the Board of Directors for all these responsibilities.

Objectives and goals

13. FCC uses a "balanced scorecard" approach to set its strategic objectives and goals and to develop strategic initiatives. The following objectives are set out in the 2006–11 Corporate Plan—which describes people as the foundation of the Corporation's strategy:

- strengthen market presence,
- enhance the customer experience,
- optimize execution and performance, and
- sustain commitment to agriculture.

Products and activities

14. Farm Credit Canada has seven distinct solutions designed to serve the diverse needs of primary producers, suppliers, processors and others involved in the Canadian agricultural industry. It offers four financial solutions: AgProduction loans, AgValue loans, Alliance loans (with partners), and venture capital. The Corporation also offers AgriAssurance life and accident insurance, AgExpert management software, and AgriSuccess information and educational workshops and seminars.

15. The AgProduction business line focuses on primary producers, whereas the AgValue line is directed to customers that enable or benefit Canadian agricultural production, including those whose activities produce, transport, store, distribute, process, or otherwise increase the value of agriculture production. The majority of the loan portfolio consists of AgProduction loans for primary producers.

16. The Alliance programs offer innovative, convenient financial solutions to producers at the point-of-sale. FCC currently has Alliance relationships with 525 agriculture equipment retailers and more than 60 suppliers, financial institutions and other agricultural groups and co-ops.

17. FCC Ventures was launched in 2002. It focused on providing equity and quasi-equity financing to small- and medium-sized companies, investing in Canadian businesses that are dedicated to serving and advancing agriculture. In November 2006, the Corporation outsourced its venture capital operation. (For more details, see the third part of this report). At that time, it had invested $37 million in the venture capital market.

18. Through AgriAssurance life and accident insurance, the Corporation offers insurance protection for individuals, farm families and their businesses. AgExpert became part of FCC in October 2002. AgExpert provides AgExpert Analyst accounting software, and the AgExpert Field Manager program. FCC's AgriSuccess team delivers educational workshops and seminars as well as information publications, which are designed to meet the needs of today's sophisticated primary producers and value-added operators.

Farm debt

19. Farm debt has risen consistently over the past 10 years. As of 31 December 2005, farm debt was $51 billion, up from $25.7 billion in 1995. Non-mortgaged debt was $25.8 billion, while mortgaged debt was $25.2 billion. The FCC's share of the overall lending market has also increased over the years, to 21.53 percent in 2005, up from 18.33 percent in 2001.

Findings and Recommendations

20. We have organized the Findings and Recommendations from the Special Examination into three parts.

21. **The first part** deals with FCC's core operations and includes Lending Operations, Credit Risk and Portfolio Management, Environment and Treasury Operations. We found that FCC is doing well in its core operations, although we did note some areas for improvement.

22. **The second part** deals with areas that support the overall organization, including Governance, Strategic Planning, Performance Reporting, Audit and Integrated Risk, Marketing and Communication, Human Resources, and Information Technology. We found that the Corporation is doing well in these areas, although we did note some areas for improvement.

23. **The third part** presents a limited number of management recommendations and decisions that were not supported by complete and adequately documented business cases and/or did not respect contracting policies or procedures generally followed in the public sector.

Core Operations

Lending operations

24. Lending is the core of Farm Credit Canada's operations. More than 500 managers and employees work in lending operations, forming the largest part of the Corporation's staff. They work in FCC's 100 field offices, dealing directly with farmers and value-added producers to provide them with loans and other products.

25. The Corporation's loan portfolio has grown rapidly, almost doubling since our last Special Examination in 2002, to more than $13 billion. As previously mentioned, the Corporation's share of the overall lending market has also increased—from 18.33 percent in 2001 to 21.53 percent in 2005.

26. We expected that FCC would have carried out its lending operations according to approved lending plans and targets, based on the Corporation's portfolio growth and profitability goals and targets. We found that the Corporation's lending operations work well, as demonstrated by the tremendous growth in the loan portfolio and FCC's increasing market share.

27. FCC has made a number of improvements since our 2002 Special Examination. For example, the Corporation has put appropriate credit-granting policies and procedures in place, and has significantly improved the way it communicates those policies and procedures. Staff can now look up those policies and procedures electronically, and the Corporation quickly communicates any changes in them.

28. FCC also provides appropriate training for staff in the area of credit risk. It has developed three credit risk courses (Credit I, Credit II, and Credit III) and trains staff members to ensure they possess the necessary knowledge, skills and experience to evaluate loans properly and to manage credit risk effectively.

29. In our 2002 Special Examination Report, we indicated that FCC should improve its documentation and profiles of parties related to a primary borrower, to ensure that loan approvals are based on complete financial information and that risks from related parties are properly identified. FCC has responded by installing a new feature in its electronic system that links any related parties, such as partners or family members who have loan balances, with the primary borrower.

30. **Lending target model.** In our 2002 Special Examination Report, we also indicated that FCC should develop a model to establish annual lending targets on an individual and aggregate basis. FCC has developed a model that considers: differences in lending opportunities across the country; the staff level; staff competencies; and the availability of account managers. FCC updates the model regularly.

31. While the model produces lending targets, the targets are determined after considerable discussion and negotiation by the Executive Vice-President and Chief Operating Officer, the Vice-President of Marketing, the regional vice-presidents, the Executive Vice-President and Chief Financial Officer, and the President and CEO. Because this part of the process is not documented, the link between the market, staff analysis and the final targets is not evident.

32. We also found that, for the past five years, the lending targets have been lower than what the Corporation lent the previous year. For example, the Corporation's lending target for the 2006–07 fiscal year was $2.62 billion. In the 2005–06 fiscal year, the Corporation lent $2.905 billion, exceeding the target for that year, which was $2.367 billion. It appears that staff members responsible for lending consistently exceed their targets. That calls into question the Corporation's ability to establish realistic targets (that are attainable, yet represent a stretch) in the current lending environment. We do note, however, that while the targets are set lower than the amount the staff lent the previous year, the targets have increased every year.

33. **Recommendation.** Farm Credit Canada should maintain minutes of the decision/negotiation meetings that take place to establish lending targets.

Management response. *Farm Credit Canada agrees and minutes will be maintained in the future to further enhance the existing process.*

34. **Recommendation.** Farm Credit Canada should review its model for setting lending targets, with a view to establishing lending targets that are attainable yet represent more of a "stretch."

Management response. *Agreed. Farm Credit Canada will continue to review the lending model and the initial targets established, to ensure that lending targets are attainable yet adequately stretch our staff in their attempt to achieve goals.*

Credit risk and portfolio management

35. Credit risk is the single largest risk facing Farm Credit Canada and is inherent in the Corporation's largest asset, its loan portfolio. Credit risk is defined as the risk of financial loss resulting from the failure of debtors to honor their financial or contractual obligations in full. Sound credit risk management involves prudently managing and controlling credit risks across a variety of dimensions, such as quality, concentration, currency, maturity, security and type of credit facility.

36. Responsibility for the Corporation's credit risk management is divided between the Credit Risk and Portfolio Management divisions. The Credit Risk Division is responsible for managing credit risk at the transactional (loan) level. The Portfolio Management Division is responsible for managing credit risk at the overall loan portfolio level.

37. We expected to find appropriate policies, procedures and controls in place to clearly define FCC's portfolio vision, diversification goals, and portfolio concentration limits; to evaluate and rate credit risk on an individual and portfolio basis; to identify credit risk problems; to estimate credit impairment in the portfolio; and to monitor and report, on an ongoing basis, on the overall credit risk of the portfolio. We found that FCC's systems and practices provide reasonable assurance that it is managing credit risk well.

38. For example, in its portfolio vision the Corporation clearly states its tolerance for credit risk, loan portfolio goals and objectives, and the expected rate of return for the loan portfolio, all of which are based on credit quality, profitability, and growth.

39. In addition, in its diversification strategy the Corporation clearly states its portfolio diversification goals and concentration limits, which ensure that the loan portfolio is adequately diversified and reflects FCC's commitment to primary production. As recommended in 2002, the Board now approves the portfolio vision and the diversification strategy on an annual basis.

40. **Strategic credit risk model.** The Corporation uses a strategic credit risk model (the model) to assess the overall credit risk present in the loan portfolio. We found that the risk factors used to calculate the overall credit risk score are appropriate and based on current information. Comprehensive reports are prepared on a regular basis for senior managers and the Board of Directors. The reports compare the credit risk and financial performance of the loan portfolio against loan portfolio goals and objectives.

41. Our examination showed that, since the inception of the model in 1996, the overall composite risk profile, which was 67 at the time, is now 56.9. This means that the overall portfolio risk has decreased, while the credit quality has increased. While this is a positive outcome for a lending institution, the Corporation needs to ensure that it keeps a proper balance between satisfying its public policy role and reducing the risk in its loan portfolio. We noticed in its national operations business plan that the Corporation intends to maintain and gain more AAA clients. This means that the extent of risk in the portfolio may decrease further.

42. **Recommendation.** Farm Credit Canada should continue to review the extent of risk in the loan portfolio, with a view to keeping a proper balance between satisfying its public policy role and minimizing the risk in the overall portfolio.

Management response. *Agreed. Farm Credit Canada will continue to review the extent of risk in the loan portfolio and maintain a proper balance. The improvement in the strength of FCC's loan portfolio over the past few years reflects a variety of macro-economic events, including general improvements to many sectors within the agriculture industry. While the strategic credit risk score has improved, FCC continues to meet its public policy role by offering lending products and services to farming operations and businesses of various risk profiles and sizes.*

43. **Risk scoring and pricing system.** The risk scoring and pricing system (the system) estimates the risk of default on individual loans, drives the loan approval process, calculates loan pricing based on the risk of the loan, and provides a consistent approach to risk scoring and pricing across the Corporation. The system also identifies credit risk problems.

44. The system uses external information which is updated regularly, based on current enterprise risk profiles and trends. However, the internal data, such as the historic rate of loss or the discount rate on security values, have not been updated for the last few years. This affects the system's ability to predict losses properly. Ultimately, it also affects the provision for credit losses that the Corporation provides on its financial statements.

45. Staff members review the system on a regular basis to ensure its validity. Results of the 2006 validation process demonstrate that the system is still a good tool. However, the system tends to over estimate the probability of default. FCC has started an overall review of the system that will take almost four years to complete, although updating the internal data is to occur in the next fiscal year.

46. The Corporation performed a simulation test on possible credit losses in case of an avian flu epidemic. According to managers, the system did not have the necessary capacity to perform a proper stress test of the credit losses. They intend to review this further during their overall review of the system.

47. **Recommendation.** Farm Credit Canada should review its risk scoring and pricing system and update the internal data as planned.

Management response. *Agreed. Farm Credit Canada is committed to continuously enhancing its internal risk rating and pricing system. In 2006, an independent review of its Risk Scoring and Pricing System was completed. Work to address the findings of this review, including updating the system's key assumptions to reflect FCC's experience and industry best practice, is well underway. Other enhancements and continuous improvements to the system will be evaluated in future years.*

Treasury operations

48. Farm Credit Canada's Treasury division and related operational risk management practices are important components of the Corporation's asset and liability management practices. Balancing prudent, yet opportunistic asset and liability management decisions is the way financial institutions make money and create value for shareholders.

49. FCC's Treasury issues debt domestically and internationally to finance operations. It also undertakes transactions to off-set undesired financial market risks. Since 2000, the Corporation's total borrowings have increased 92 percent. The current debt mix consists of $4 billion in short-term debt and $8 billion in long-term debt. The permission and guidelines of the Department of Finance enable the Corporation's Treasury operations.

50. We expected to find that Treasury strategies and programs for funding, investment and risk management would be consistent with corporate objectives and risk tolerances; that senior managers would identify, quantify and manage risk exposures; and that there would be appropriate monitoring and reporting of Treasury transactions and activities to management and to the Board. During the course of our examination, we observed that overall Treasury activities were prudently managed, and that internal auditors had audited Treasury transactions annually since the last special examination.

51. The Corporation has made considerable improvements since our 2002 examination. Consistent with other lending institutions, the Treasury is now organized into three distinct areas of activity: Capital Markets, Treasury Risk and Treasury Operations. As a result, risk monitoring and transaction processing and verification are now independent of capital market transactions. We also noted improvement in Treasury systems and reports since the 2002 examination.

52. **Interest rate risk management.** The monitoring of the impact of interest rate fluctuations is critical to the management of financial institution earnings because sensitivity to interest rate changes can cause wide swings in both earnings and the value of portfolios. Typically, banks compare the characteristics of their loans (assets) with their funding (liabilities) to get a sense of their interest rate sensitivity. The measurement and management of interest rate risk can be complex. Interest rates can fluctuate at different rates, by different amounts and in different directions for different maturities. As a result, the regulators of financial institutions encourage using multiple measures of interest rate sensitivity.

53. Farm Credit Canada uses four types of tools to measure interest rate sensitivity. They include comparing the difference between the interest payments to FCC on loans and the interest payments made by FCC on its debts; measuring the difference in the current value of assets and liabilities; measuring the sensitivity of assets and liabilities to changes in interest rates; and analyzing the impact of changes in interest rates on the value of the portfolio and on net interest income. Large regulated banks use more sophisticated interest rate sensitivity measurement tools. Such tools build in more detailed assumptions about the future course of interest rates and the possible changes in the asset and liability portfolios. While FCC has made some progress in this regard, it could further augment its use of sophisticated risk measurement techniques.

54. Measuring and managing the interest rate sensitivity of FCC's assets and liabilities has also become more complex as loan products have included more future choices for borrowers. These choices typically include options that give the borrower a right, but not the obligation, to change a feature of the loan in the future. For example, a loan prepayment option allows the borrower to prepay the loan at any time. Other examples include delayed payment features. These options increase the uncertainty of cash flow timing and make it more difficult to mirror the assets with the issuance of debt instruments with the reverse characteristics. As a result, the cash flow characteristics of the assets and liabilities may not match. The Corporation will not know the extent of the mismatch unless it can approximate and aggregate the characteristics of each option. The Corporation does not yet have the systems capability to do this type of analysis for delayed payment options.

55. **Recommendation.** Farm Credit Canada should consider augmenting its risk measurement tools to keep up with the size and complexity of its asset portfolio.

Management response. *Farm Credit Canada agrees with the recommendation and will continue to review and improve its interest rate risk measurement techniques.*

Environment

56. Financial institutions, such as FCC, are giving increasing attention to corporate social responsibility. This includes focusing more on the environment through environmentally sustainable business practices and environmental stewardship. Environmental issues have become more important for federal Crown corporations like FCC, as a result of changes to the *Canadian Environmental Assessment Act* (CEAA) that came into effect in June 2006. The Act is intended to minimize or avoid environmental effects before they occur and to incorporate environment factors into decision-making.

57. As a "federal authority" under the Act, the Corporation is now required to conduct an environmental assessment prior to providing loans to many of its customers. If the project is likely to cause significant adverse environmental effects that cannot be justified under the circumstances, a federal authority is not allowed to exercise any powers that would permit the project to be carried out. In FCC's case, it would not be allowed to extend a loan to that customer.

Information on environmental assessments and decisions are posted on a special CEAA web-based registry.

58. We expected that the Corporation would have ensured that risks to the environment were identified, mitigated, monitored and reported as appropriate, consistent with both government expectations and the Corporation's tolerance for risk. Given the recent changes under the CEAA, we concentrated our efforts on how the Corporation adapted its existing environmental policies and practices to address its new obligations under the Act. We found that while the Corporation met this criterion, it needs to make further improvements.

59. **Processes and policies.** Before June 2006, FCC consulted extensively with the Canadian Environmental Assessment Agency (CEAA) and adapted its environmental and credit policies and procedures, as well as its client questionnaires and internal forms. The Corporation also changed its loan management system to collect information for the CEAA Registry. Through a public consultation exercise, the FCC received comments from three federal departments. FCC management considered those comments but made few changes in response to them.

60. As part of the modified loan processes, relationship managers are responsible for conducting these environmental assessments and deciding on the significance of potential environmental effects. FCC provided some training about the new requirements and developed a guide to assist relationship managers in the assessment process.

61. Our review of the training materials indicates that the training could be improved. The Corporation surveyed its staff and determined that the training was not effective. The Corporation has created an action plan to respond to the needs of lending staff, which it will implement in the fall of 2007.

62. We also reviewed the Corporation's new forms and guidance materials to support the environmental assessments. We reviewed a sample of new loans issued since July 2006 to ensure that the Corporation was applying its new policies and processes. We found that the Corporation relies on the information it obtains through a customer questionnaire for its environmental assessment. The Environmental Assessment Questionnaire was not sufficiently modified to reflect the new CEAA. It does not ask for enough information about the scope of the proposed project, the effects it might have on the environment, or how the client might mitigate against these effects. Instead, the questionnaire focuses primarily on current conditions and management practices. In addition, the form asks the client to identify whether the operation might affect endangered species, environmentally protected areas, or migratory birds and other species. It is unlikely that clients or relationship managers would be able to answer these questions with any certainty.

63. Some of these observations are similar to those that federal departments provided to the Corporation during public consultations.

64. We also observed several weaknesses in the Environmental Assessment Screening form that relationship managers use. This is the key tool the FCC uses to conduct the CEAA assessment. For example, the form does not ask for information about the surrounding environment and neighbouring activities, which are important considerations for an environmental assessment. In addition, the form and supporting guidance does not assist the relationship manager in identifying other federal authorities that might be involved in assessing the project. The relationship managers have to call headquarters to obtain help.

65. **Recommendation**. Farm Credit Canada should provide more guidance and training to relationship managers so they can better analyze and support decisions about environmental effects and improve the forms and the documentation about the decisions related to the *Canadian Environmental Assessment Act*.

***Management response**. Agreed. Consistent with Farm Credit Canada's CEAA Forms and Training project, the environmental assessment forms and tools provided to Relationship Managers and customers are currently being enhanced. This project was initiated in February 2007 and includes the development and roll out of a third training program on environmental risk management to FCC's employees. Training programs on environmental risk management and CEAA accountabilities were offered to employees in 2004 and 2006 respectively.*

66. **Environmental assessment process.** During our review of a sample of new loans issued since July 2006, we found that the relationship managers completed an Environmental Assessment Screening form in all cases and rendered a decision on the environmental effects of a proposed project before the disbursement date, as per FCC's process.

67. For several of the samples, the information that the relationship manager recorded was not complete or detailed. In most cases, there was no explanation or analysis as to the basis for the environmental assessment decision. Often, the relationship manager did not identify the components of the environment that the project might affect. The relationship manager might note measures to mitigate environmental effects, but little detail was provided so it was not evident how the mitigation measures were balanced against potential environmental impacts.

68. We noted that FCC generally takes a generic approach to assessing the environmental effects of projects – that is, the approach used is the same whether the purpose of the loan has an inherently low or a high level of environmental risk (for example, building a barn versus establishing a large pork operation). FCC does not use a risk-based approach for screening level assessments and relies on relationship managers to conduct these assessments regardless of the scope of the project.

69. **Recommendation**. Farm Credit Canada should consider tailoring the assessment process to reflect the risks associated with proposed projects that may be supported by the FCC, rather than treating all projects the same (a generic-based approach).

Management response*. Agreed. As part of the CEAA Forms and Training project, Farm Credit Canada is considering adding to its environmental assessment process additional evaluation requirements for predefined, high risk scenarios.*

Overall Organization

Governance

70. FCC's governance structure consists of a Board of Directors composed of 12 members, including the Chairman and the President and Chief Executive Officer (CEO). It also has four Board committees: the Audit Committee, Human Resources Committee, Corporate Governance Committee, and Nominating Committee. There were 9 Board meetings (some by conference call) and 28 committee meetings during the 2006–07 fiscal year.

71. Because the Corporation's Board will have six new Board members in the 2006 and 2007 years, including a new Chair of the Board and a new President and CEO, it is facing a considerable challenge. In our 2005 report entitled *Governance of Crown Corporations,* we noted that many appointments of directors to Crown corporation boards were not timely. Further, we noted that such appointments were not staggered evenly over time, which increased the risk that continuity of expertise and corporate memory would be lost.

72. We expected that FCC would have a well-performing corporate governance framework that meets the expectations of best practices in board stewardship. We found that, overall, the Board's governance framework worked well, and it took appropriate action with respect to our 2002 recommendations. However, we do have some suggestions for improvement.

73. In 2002, we recommended that the Board undertake evaluations of its performance. Since then, there have been two external evaluations of FCC's Board of Directors. The most recent evaluation (in 2006) was comprehensive, and concluded with a meeting in December 2006. During this meeting, Board members and managers talked about their roles and responsibilities and resolved any differences of opinion.

74. We also found that FCC renewed its Code of Conduct and Ethics in February 2006. At that time, all directors and employees signed a conflict of interest form. Also in February 2006, FCC established the position of Integrity Officer, which is a best practice. The Integrity Officer investigates any possible violations of the Code of Conduct and Ethics and submits an annual report to the Audit Committee about allegations and investigations. This occurred for the first time in March 2007.

75. **Board skills gap analysis.** The Treasury Board of Canada Secretariat and the regulators of financial institutions emphasize the importance of qualified directors to oversee the activities of an organization. FCC is a lending institution that competes with banks for quality assets. Interviews with directors and the corporate secretary indicated that the Board does not produce or update an inventory of director skills and experience annually, and compare that directory to desired skills and experience. Such a Board Skills Gap Analysis could be used to develop training plans for board members.

76. Based on resumes FCC supplied us with, as well as information on its website, we found there is adequate audit and legal experience on the FCC Board. The directors are geographically diversified and they are strong in agricultural and small business sector experience. However, because they appear to have limited experience in banking operations, it may be difficult for the Board to question asset/liability management and financial institution risk tolerance as part of their duty of care.

77. **Recommendation.** Farm Credit Canada's Board of Directors should develop and update a Skills Gap Analysis annually.

Management response. *Farm Credit Canada agrees with this recommendation. Its Board of Directors has conducted a Skills Analysis in the past. This has not been done for two years because of the significant turnover on the board. FCC will conduct a Skills Gap Analysis, particularly concerning the new board members and will update it annually.*

78. **Board training.** The Corporation provides new Board members with an orientation package and the opportunity to learn about the Corporation and their role through discussions with vice-presidents and the CEO. Board members are then encouraged to take ongoing training through internal and external courses and conferences. Despite this, we noted that no training plans have yet been developed for board members.

79. In reviewing training taken since 2002, we found that a number of Board members have had external training in governance issues. However, we found that Board members have had little training in banking operations or technical topics. The lack of Board member education in business topics was a concern that the 2006 Board Evaluation report also raised.

80. **Recommendation**. Farm Credit Canada should develop training plans for Board members and offer Board members the opportunity to learn and review the principles of risk, asset and liability management, every year.

Management response. *Over the past several years, management has worked with the Board to identify, prioritize and deliver Board training. With the Board's consent, Farm Credit Canada agrees that individual training plans will be developed for all directors and these training plans will cover the principles of risk and asset liability management.*

81. **Board approvals.** In 2002, we noted that the Board needed to play a more formal role in reviewing and approving a number of documents. We noted improvement in this area. However, we found that the Board still needs to strengthen its oversight role by reviewing and re-approving lending and Treasury policies. The Board could approve significant changes, such as those necessary to conform with the new requirements of the *Canadian Environmental Assessment Act*, and any changes to national lending targets and Treasury limits.

82. Although the Board has not re-approved the Treasury policy and limits, we did note in March 2006 that the nature and structure of each of the corporation's Treasury limits was presented to the Board.

83. **Recommendation**. The Board of Directors should strengthen its oversight role by re-approving policies subsequent to significant change.

Management response. *Farm Credit Canada agrees to review significant corporate policies to identify those requiring Board approval.*

84. **Exception reporting process.** FCC could strengthen its policies by including in them a description of the exception reporting process to be followed, should non-compliance with the policy occur. Appropriate exception reporting is designed to allow the Board to address problems promptly. The Treasury division recently exceeded Treasury Policy and/or Delegation of Authority limits. While this was reported to the Board of Directors and corrected quickly, the Board requested that Treasury revise its policy to include the exception reporting process. This good practice could be extended to other FCC policies.

85. **Recommendation**. Farm Credit Canada policies should include a description of the exception reporting processes, where appropriate.

Management response. *Farm Credit Canada agrees to work towards including a description of the exception reporting process in its policies, where appropriate.*

Internal audit

86. **Audit planning.** We expected the Audit Committee to approve internal audit plans, and we expected internal audits to be carried out according to those plans. We found that the Audit Committee approved audit work plans, and the Corporate Audit group, similar to other internal audit groups, is moving away from a set cycle of audits based on elapsed time to a risk-based audit strategy that it updates annually.

87. Over the past three years, some audits have been delayed, cancelled, or had their scope reduced, due to a lack of resources. We also noted that, in the past five years, the Corporation has been relying on one external consultant to audit the Treasury function. In keeping with new requirements for individuals participating in external audits, the Corporation needs to rotate the auditors it uses for Treasury audits, to protect auditor independence.

88. **Recommendation.** The Corporation should rotate the consultants it uses for Treasury audits, on a periodic basis.

***Management response**. Farm Credit Canada agrees with the recommendation.*

89. **Field operations audits.** The Field Operations audit program is designed to help managers mitigate credit risk and operational risk by ensuring compliance with FCC's credit policies and sound credit practices.

90. Over the past few years, Corporate Audit has been moving away from these traditional "compliance based" audits to "portfolio audits", based on risk. The objective is to transfer the ownership of the quality control function to Lending Operations. Corporate Audit has already reduced the number of field office audits to 12 for the 2007–08 fiscal year, from 32 in the 2004–05 fiscal year. Given the significance of the change in field office auditing, a strategy and an action plan is required to shift responsibility from Corporate Audit to Lending Operations.

91. **Recommendation.** Farm Credit Canada should develop a strategy and action plan for shifting responsibility to Lending Operations to monitor compliance with lending policies and procedures.

***Management response.** Farm Credit Canada agrees with the recommendation consistent with a commitment made to the Audit Committee 30 January 2007.*

92. **Responsibility for non-audit functions.** Internal audit normally plays a key role in providing the Audit Committee with an independent and objective view of the organization's risks and internal controls. In the case of FCC's Corporate Audit, the Vice-President of Audit and Integrated Risk is also responsible for three non-audit functions. These are: developing and overseeing the overall enterprise risk management model; overall business continuity planning; and corporate security policies and guidelines.

93. The independence and objectivity of internal audit is impaired in relation to the above three non-audit functions, as it would need to audit some of its own activities. FCC plans to address this lack of independence by hiring external auditors on contract for audit work touching these areas. Those auditors will report directly to the Audit Committee. As these functions cut across all areas of the organization, it may be difficult for Corporate Audit to carry out its normal role. As such, the situation is not ideal.

94. **Reporting relationship.** The Vice-President of Audit and Integrated Risk reports administratively to the Chief Financial Officer and functionally to the Audit Committee. Again, this is not an ideal situation. It would be better if the Chief Audit Executive reported administratively to the Chief Executive Officer (CEO) of the organization. Management has informed us that the Chief Audit Executive has unrestricted access to the CEO with regular monthly meetings to inform and discuss audit issues. We understand that this will be reflected in an amended organizational chart showing a dotted line reporting relationship between the Chief Audit Executive and the CEO.

95. **Recommendation**. Farm Credit Canada may wish to reconsider the responsibilities and reporting relationship of the Vice-President of Audit and Integrated Risk, to better ensure the independence and objectivity of this function.

Management response. *Farm Credit Canada agrees to review this.*

96. **Corporate security policy.** FCC has not yet developed an overall corporate security policy. A draft corporate security policy framework, dated August 2006, does exist. However, the Corporation has not yet approved the framework, and, until it does, the Corporate Security Officer is unable to make progress with respect to the policy.

97. The Corporate Security Officer reports to the Vice-President of Audit and Integrated Risk, who, in turn reports to the Chief Financial Officer. Ideally, the Corporate Security Officer would report to the Executive Committee. An external Future Information Technology Capabilities Study recommended that the Corporate Security Officer be positioned under the Chief Information Officer.

98. We also found that the Corporation's Information Technology division had not yet developed an IT Security Policy. However, the division does have a policy relating to acceptable and unacceptable use of computers and electronic networks. We found that FCC needs to improve its electronic tools to adequately monitor and identify unauthorized or questionable uses of network resources in a timely manner.

99. **Recommendation.** Farm Credit Canada should develop an overall Corporate Security Policy from which other more specific policies and practices can be put in place, such as the IT security policy.

***Management response**. Farm Credit Canada agrees with the recommendation.*

100. **Recommendation.** Farm Credit Canada should consider placing the Corporate Security Function more strategically within the organization.

***Management response.** Farm Credit Canada agrees to review the reporting relationship of Corporate Security.*

Strategic planning

101. Strategic planning is a management tool that an organization uses to define its mandate, determine its long-term goals and identify the best approaches to achieve those goals. FCC's senior management team and the Board of Directors are engaged in the strategic planning process. The Corporate Plan is the ultimate result of this process.

102. We expected that the Corporation would have clearly defined strategic directions and specific measurable goals and objectives in order to achieve its mandate. We expected that the Corporation's strategic direction and goals would reflect government priorities, FCC's environment, identified risks, and the financial and operational implications of achieving its goals and objectives. We found that the Corporation met our expectations, although some areas for improvement remain.

103. We found that FCC develops a five-year Corporate Plan, which it updates each year. Its corporate plans have been prepared in compliance with the Treasury Board Secretariat's *Guidelines for the Preparation of Corporate Plans.* The Corporation has submitted its corporate plans to the Minister of Agriculture and Agri-Food Canada and to Treasury Board on a timely basis.

104. **Division business plans.** FCC has made, and continues to make, progress in preparing division business plans. Each division is responsible for preparing an annual plan that is aligned with the Corporate Plan. We found that the Corporate Plan and division business plans are usually aligned.

105. However, not all division plans are developed using the same format as the corporate balanced scorecard, which is included in the Corporate Plan. This makes it difficult to link some of the division's initiatives and strategies directly to corporate initiatives. For example, the link between the Corporate Plan and the Marketing Plan is not clear.

106. We noted that at the divisional level, measures are not identified for all of the objectives. In addition, where measures were identified, there are not always specific targets to determine whether the division met its objectives. Clearly defined measures of success and targets are necessary for assessing how well a division meets its objectives.

107. For example, a comparison of the 2006–07 and the 2007–08 Information Technology Strategic Plans reveal that the 2007–08 plan does not mention progress concerning objectives set out in the 2006–07 plan. We were informed that the Corporation will institute a formal process for reporting on measures and progress on the IT objectives in the coming year. Furthermore, the 2007–08 IT Strategic Plan does not clearly define how the division will meet and measure its objectives.

108. **Recommendation**. Farm Credit Canada should ensure its division business plans share a common format, to provide better accountability and reporting.

***Management response**. Farm Credit Canada agrees and has developed a common format for divisional business planning and reporting and will ensure that all divisions use this format in 2008–09.*

109. **Recommendation.** Farm Credit Canada should continue developing measures and targets for the objectives identified at the divisional level.

***Management response**. Farm Credit Canada agrees and will develop a more formal process for 2008–09.*

110. **Monitoring progress against plans.** Responsibilities that are identified at the corporate level are monitored and reported to the Board of Directors and Senior Management Team on a quarterly basis.

111. The vice-president of each division is accountable for monitoring progress against divisional plans through the annual performance objective setting and review process. There are no formal approval processes in place for the divisional plans and no internal procedures to monitor and report on progress against them.

112. **Recommendation**. Farm Credit Canada should implement a formal approval process for its divisional plans. In addition, it should monitor and report on the achievement of the objectives identified at the divisional level.

***Management response**. Farm Credit Canada agrees and will ensure that all divisional business plans are approved.*

113. **Vice-presidents' individual performance.** The vice-presidents' Individual Performance Objectives Review and Development Planning forms are formatted according to the Corporate balanced scorecard, making it easier to trace the activities/initiatives from FCC's balanced scorecard to divisional plans and to vice-presidents' individual performance plans.

114. However, we found that the vice-presidents' individual goals and performance plans do not always include all the initiatives for which they are responsible. Not all of the plans include measures and specific targets against which to measure performance.

115. **Recommendation**. Farm Credit Canada should continue its efforts to ensure that vice-presidents' individual performance plans include all the activities/initiatives for which they are identified as sponsors in the corporate scorecard. The plans should also include performance indicators and targets for the activities/initiatives.

***Management response**. Farm Credit Canada agrees and will ensure that corporate scorecard activities/initiatives are included in individual performance plans.*

Performance measurement and reporting

116. Performance measurement and reporting includes collecting and analyzing information about an organization's performance and reporting it to the public. Although Crown corporations are distinct legal entities and have their own boards of directors, Parliament assigns their mandates and powers and they are ultimately accountable to Parliament through the responsible minister. A critical vehicle for accountability is the Corporation's Annual Report.

117. We expected that FCC would have identified performance indicators to measure the way it achieved its mandate and statutory objectives. We also expected FCC would have reports that provided complete, accurate, timely, and balanced information for decision making and accountability reporting. This expectation was met, although areas for improvement remain.

118. We found that FCC's Annual Report is presented to the Board for approval and is communicated to the public, stakeholders and to Parliament in a timely manner. We also found that there is a clear relationship between FCC's Corporate Plan and its Annual Report.

119. The balanced scorecard included in the Annual Report contains the Corporation's objectives, measures, and targets. The performance indicators are both quantitative and qualitative and measure performance against the Corporation's strategic objectives. In some instances, the report provides annual targets; in other instances, it does not. However, the report indicates when these targets will be set.

120. Although FCC has made significant efforts to identify outcome measures and expected outcomes, it needs to do more to demonstrate how its strategies, programs, and initiatives have contributed to achieving FCC's overall goals.

121. We also found that, in some cases, it is not obvious in the balanced scorecard how corporate measures relate to initiatives and strategies. For example, one of the corporate strategic initiatives is to *continue to research needs of young farmers to develop new solutions and sustain existing offerings*. It is not clear how the current corporate measures specifically take into account FCC's efforts to support young farmers.

122. **Recommendation.** Farm Credit Canada should continue to further refine its corporate measures.

***Management response**. Farm Credit Canada agrees and will continue to revisit and refine the Corporate measures annually.*

123. **Recommendation.** Farm Credit Canada should continue to develop targets for identified performance measures.

***Management response**. Agreed. Farm Credit Canada will continue to enhance performance measure targets.*

124. **External reporting**. Information in the Annual Report is credible and somewhat balanced; it describes strong performances, some weak performances, and risks and challenges. However, insufficient explanation is provided about negative results in comparison to the annual target, and the report does not discuss areas for improvement. While the Annual Report includes a description of the types of risk the Corporation faces, it does not discuss the potential impact these risks could have on the Corporation's ability to achieve its objectives.

125. We also found that there could be greater disclosure and transparency in reporting in annual reports, including cash compensation for the CEO and individual vice-presidents. We also encourage disclosure of the travel and hospitality expenses of senior officials on Crown Corporation websites, and disclosure of contracts over a certain dollar amount. We do note that travel and hospitality expenses for the Corporation's President and CEO are on the Corporation's website.

126. **Recommendation**. Farm Credit Canada's Annual Report should provide a better explanation of negative results and should include the impact identified risks could have on the Corporation's ability to achieve its objectives.

***Management response**. Farm Credit Canada agrees and will provide more context for all corporate results including the impact identified risks could have on the achievement of corporate objectives.*

127. **Recommendation**. Farm Credit Canada should work toward greater disclosure and transparency in its external reporting.

***Management response**. Agreed. Farm Credit Canada is committed to continuously improving disclosure and transparency in external reporting.*

128. **Public policy role.** In 2002, we found that the Corporation had not adequately defined its public policy role. This continues to be a concern. In reviewing the Corporation's 2005 Annual Report for the Auditor General's Award for Excellence in Annual Reporting, our panel of judges raised the same issue. In order to determine whether FCC had made progress in this area, we compared the 2002–03 Annual Report with the 2005–06 Annual Report.

129. We found that both annual reports provided a good description of FCC's public policy role, in areas that did not involve its core lending operations. In terms of the contribution the Corporation made as a Federal Crown Corporation, as compared to commercial lenders, we found the Corporation's public policy role to be less defined, and not supported by factual information. When we reviewed the two annual reports, we did not see progress in this area. The new description of Corporate Social Responsibility, included in the 2005–06 report, provides little explanation of FCC's public policy role.

130. In particular, given FCC's need to balance fiscal responsibility and service to the broadest customer base, the annual report needs to fully address questions, such as "How much profit is enough?" and "What is the proper level of risk?"

131. **Recommendation**. Farm Credit Canada should more fully elaborate its public policy role in its Annual Report, taking into consideration its credit risk strategy.

***Management response**. Farm Credit Canada senior management holds regular discussions with the Board with respect to strategy vis-à-vis the public policy role, including the desired level of profitability and non-revenue-generating programs to benefit the agriculture industry. FCC will* *augment its public policy role discussion in the Annual Report to better reflect internal dialogue.*

132. **Internal communication of Farm Credit Canada's performance.** FCC has complete, accurate, and timely internal reports that provide corporate results measured against the performance indicators and targets that the balanced scorecard identifies.

Marketing and communications

133. We examined the Corporation to uncover the major initiatives that could help it effectively differentiate itself from its competition. We expected to find that FCC's marketing plans and practices were consistent with the Corporation's mandate; supportive of the Corporation's mission, vision, objectives and goals; responsive to market needs; and effectively implemented.

134. We found that the Corporation met these expectations and that the Marketing function has made significant progress since 2002. However, the Corporation has an opportunity to further develop its professional marketing and communications practice and delivery.

135. **Marketing**. The Corporation's core marketing functions are disaggregated into two separate departments within FCC—Marketing and Strategy, Knowledge and Reputation. Marketing conducts market research to identify market needs and desired service channels. It is also responsible for developing new products in response to identified customer needs, such as more flexibly in loan products.

136. The Strategy, Knowledge and Reputation division has a clear mandate for branding activities that enhance FCC's reputation. Branding disciplines have been in place at FCC for some time, and there is a clear brand definition, corporate identity, logo and theme. The brand is aligned with FCC's mission and values. While FCC brand has been incorporated into all advertising documents, FCC's Corporate Plan and divisional plans also need to address it.

137. It is possible that a more centralized marketing structure would increase effectiveness and efficiency and facilitate integration throughout all marketing activities.

138. **Recommendation.** Farm Credit Canada should consider a more centralized marketing structure, to determine if this would increase effectiveness, efficiency, synergies and integration.

Management response. *Farm Credit Canada agrees to consider this recommendation. Farm Credit Canada addresses the issue of two separate departments through an Integrated Marketing Communications (IMC)* *committee composed of representatives from the two departments. Integrated Marketing Communications is a recognized discipline in the industry to which we adhere.*

139. Long-term vision. The FCC Marketing Plan is primarily based upon a sales support mission, which tends to be short term and tactically oriented. Marketing planning needs to be more strategic, turning research results into strategies and taking a long-term view of the business. The development of the Marketing Plan also needs to be more comprehensive in its lessons learned, business review, and analysis of the customer and competition.

140. Recommendation. Farm Credit Canada's strategic marketing planning should be more comprehensive, longer-term and customer-driven.

Management response. *Farm Credit Canada agrees and is placing additional attention toward developing Marketing Plans that address the recommendation. Key to the development of the 2008–09 Marketing Plan will be a direct link to the line of sight established in the Corporate Plan.*

141. While the Corporation has a process associated with new product development, it is not sufficiently consumer-driven in its early stages. The business cases associated with new products could focus more on the customer.

142. Recommendation. Farm Credit Canada's customer needs should be a stronger driver in the initiation and development of new products.

Management response. *Farm Credit Canada agrees with the importance of assessing customer needs in developing products and will continue to do so.*

143. The focus of new customer acquisition is primarily through direct field sales staff. Marketing could fulfill a more proactive role by generating qualified leads for sales. This could be driven by advertising, direct mail or email, and the FCC web-site could be used more effectively to generate leads and as a marketing tool.

144. Recommendation. Farm Credit Canada's Marketing should take the lead more proactively to acquire and retain new customers.

Management response. *Farm Credit Canada agrees and will address this as part of the Marketing Plan mentioned in the response to the first recommendation. Further, we are responding with a strengthened program for Industry Relations, AgriSuccess (learning and publications) and Trade Shows. Finally, the already mentioned Integrated Marketing*

Communications partnership is in the process of delivering an enhanced program of advertising and promotion through both traditional and new channels.

145. **Product profitability.** FCC offers 26 separate loan products, which are not differentiated in terms of the loan rate or price, but rather have different features to target specific customer segments. Marketing reports the gross margin on loan products, based upon the transfer price from Treasury and the loan rate. In terms of the AgExpert software products, profitability is considered, although this group has not yet reached the break-even point. The profitability of other products which fulfill more of a public policy mandate, such as AgSuccess, is not evaluated.

146. Marketing may wish to increase its efforts to manage and rationalize its existing slate of products.

147. **Recommendation.** Farm Credit Canada should conduct a regular and rigorous review of existing products to determine whether they should be continued, refined or eliminated. Clear guidelines should be established for product discontinuations and consolidation.

Management response. *Agreed. The last product review was completed in March 2005. A rigorous review is planned for 2007–08. The review plan involves statistical analysis, customer feedback, and staff feedback. Recommendations to continue, enhance, consolidate or discontinue will be included in the review.*

Human resources management

148. Since our last Special Examination, FCC has undertaken a number of Human Resources initiatives aimed at improving the Corporation's performance and employee satisfaction. FCC is now ranked as one of the 50 best employers in Canada.

149. We expected to find that human resources are managed in a manner that provides the Corporation with the core competencies and skills it needs to achieve its goals and objectives economically and efficiently. We found that FCC met these expectations, although some areas for improvement remain.

150. In 2002, we found that the Human Resources division did not provide the Board with an annual report on its activities. However, since March 2004, the Human Resources division has been providing the Board of Directors with an annual report about human resources management matters, including: the bonus program, the pension plan, the leadership development and the competency program, and other information related to employee demographics and government priorities.

151. We also found that FCC uses internal and external employee surveys to identify strengths to maintain and areas to improve. In most areas, FCC has shown steady improvement. The Corporation also compares favourably with the other 49 best employers in Canada, an assessment that largely focuses on human resources management.

152. **Workforce planning.** We found that in 2004, FCC developed a workforce plan pilot project. This pilot project described the importance of workforce planning and identified three priorities, including a restructuring of the job classification system to better differentiate levels of responsibility and to establish career ladders. The restructured job classification system was recently completed and was important to the other two priorities – training and development, and succession management.

153. FCC plans to develop a workforce plan in the 2007–08 fiscal year. Such a plan is important so that the Corporation will continue to have the people it requires, when it requires them, to achieve its long-term business plans and objectives.

154. **Human resources governance.** The stated duties of the Board's Human Resources Committee include the responsibility to "review and recommend to the Board, the annual strategic human resources plan of the corporation." The Corporation has not defined what constitutes a human resource plan. FCC should consider revising the wording of the Committee's duties, making it clear that the HR Committee is responsible for reviewing and approving a workforce plan to support the Corporate Plan.

155. **Recommendation.** Farm Credit Canada should clarify the duties of the Human Resources Committee of the Board with respect to reviewing and approving the workforce plan.

Management response. *Farm Credit Canada agrees and will clarify the duties of the Human Resources Committee of the Board.*

156. The Committee's responsibility to establish objectives and to assess the performance of the President and CEO is not clear in its stated duties. A governance evaluation report dated September 2006 states that there should be a robust and well-reasoned CEO goal-setting and evaluation process in the future. Such a process would also serve to establish the objectives of the senior management team in support of the performance expectations of the President and CEO.

157. Recommendation. Farm Credit Canada should clarify the responsibilities of the Human Resources Committee of the Board with respect to the requirement and process to establish objectives and assess the performance of the President and the CEO.

Management response. *Farm Credit Canada agrees and will clarify the duties of the Human Resources Committee of the Board.*

158. Training. FCC has structured training to support its operations, such as credit training, and has an established management development program. It also started a major cultural transformation initiative in the 2002–03 fiscal year. Despite the emphasis now being placed on training, the Corporation has yet to put a process into place to ensure that all of its training needs are systematically identified and met. While FCC considers that knowledge of agriculture gives the Corporation a competitive edge, it does not systematically identify and analyze employee training needs.

159. FCC is aware that it needs a cohesive approach to training and development aligned with the new job classification structure and that it needs to strengthen orientation training.

160. Recommendation. Farm Credit Canada should develop a training plan/strategy that addresses the training implications of its programs and initiatives that support the attainment of corporate objectives and priorities.

Management response. *Farm Credit Canada agrees and will continue to develop its performance management and competency program (Horizon) in order to align performance to competencies, and in turn identify and align training to individual gaps identified through the process.*

161. Recruitment and retention. With the exception of areas of the country where there are labour market shortages, FCC has been able to recruit the people it needs. The Corporation does not have a recruitment plan to facilitate a more proactive approach to staffing, but it does respond quickly to staffing requests. FCC has put policies and processes in place to encourage employees to remain with the Corporation and is investigating the need for a strategy to maintain staffing levels required in areas of the country where recruitment and retention problems are in evidence or expected to occur.

162. Recommendation. Farm Credit Canada should have a staffing plan/strategy to proactively address future staffing needs.

Management response. *Farm Credit Canada agrees and will put plans in place to create and implement a corporate workforce plan intended to support the proactive staffing and retention needs of the company.*

163. **Succession planning.** We found that FCC has a Board-approved succession chart for the senior management team that identifies potential replacements within the Corporation and any necessary external recruitment. The Corporation also has an established leadership development program. It does, however, need to further develop a succession management program for all the key positions that have a critical influence on operational or strategic activities.

164. **Recommendation.** Farm Credit Canada should develop a succession management program for all major positions.

Management response. *Farm Credit Canada agrees and will review its current succession planning process to identify areas for improvement.*

Integrated risk management

165. An effective risk management process identifies, communicates, measures and appropriately addresses any significant risks to the achievement of critical corporate and operational objectives. We looked for a corporation-wide approach to risk management, providing reasonable assurance that significant risks and opportunities are identified, effectively evaluated and addressed. We concluded that FCC has developed a corporation-wide risk management approach, although areas for improvement remain.

166. FCC has developed a Risk Management Framework that identifies underlying principles, roles and responsibilities, and a methodology for managing risk. FCC has identified and documented its risk profile; developed a detailed risk measurement methodology that considers likelihood, impact, current controls, significance, and value at risk; and documented its risk tolerance. The Corporation has established priorities to develop an integrated risk assessment system and provide training in the use and completion of the Risk Assessment Scan.

167. Overall, this year's Risk Assessment Scan identified 30 risks, 11 of which require action plan reporting. Action plans outline the timing of corrective action and assign responsibility.

168. While we recognize the progress that FCC has made, we have also suggested some improvements.

169. **Implementing and Monitoring Action Plans.** To date, integrated risk management has focused primarily on identifying risks.

FCC now needs to focus on implementing and monitoring the effectiveness of its various action plans.

170. FCC also needs to formally, and in an organized fashion, review best practices in identifying and managing operational risks; decide which operational risks are relevant to it, and how it may need to change its risk classification and risk mitigation methodology. In addition, FCC should differentiate operational risks from risks that the environment poses (such as animal diseases or drought).

171. The ability to identify and quantify operational risks is attracting considerable attention in the financial institution industry as a whole. Financial institutions have received negative publicity when confidential customer data was lost in transit or when account information was faxed to third parties. It will be important for FCC to monitor future developments across the industry to refine its operational risk analysis and supporting procedures.

172. Financial institutions have been subject to considerable media attention over record-setting profits and service fees. As a result, they need to pay particular attention to managing risks that could harm their reputation. Risk to reputation is of particular concern to Crown corporations because the public expects these corporations to display higher standard of accountability and transparency.

173. **Recommendation.** Farm Credit Canada should focus further on implementing and monitoring the effectiveness of the various action plans.

Management response. *Farm Credit Canada agrees and will enhance the monitoring of integrated risk management action plans for effectiveness.*

174. **Recommendation.** Farm Credit Canada should extend its approach to integrated risk management, emphasizing operational risks and, in particular, risks to its reputation as a Crown corporation.

Management response. *Farm Credit Canada agrees and will review its integrated risk management process to assess areas requiring further development to reflect best practices.*

175. **Link between risk management and strategic planning.** We noted that the risk assessment process is not yet tightly integrated with the Corporation's strategic and operational planning processes. As part of an annual strategic planning process, business line and regional managers are currently preparing Strengths, Weakness, Opportunities and Threat (SWOT) assessments. The SWOT assessments should be part of management's overall integrated risk assessment. The

Corporation should develop one set of action plans to deal with identified risks.

176. **Recommendation.** Farm Credit Canada should link its risk assessment process closely with its strategic and operational planning processes.

Management response. *Farm Credit Canada agrees and is enhancing the linkages.*

Information technology

177. FCC introduced its current information technology systems over a 10-year period and developed them independently. These systems operate in silos, that is, they have multiple input points and a high learning curve for employees.

178. In recognition of both process and system inefficiencies, FCC initiated an Enterprise Integration Program (EIP) in January 2004. Staff responsible for this program re-engineered business processes associated with the lending division. They were also instructed to provide a roadmap for associated information technology development.

179. Those working on the program prepared a business case outlining FCC's Business and Technical Architecture Vision. They submitted it to the Board for approval in October 2006. This business case outlined various options with a recommended solution. The Board approved the recommended approach, called "Big Kahuna," which will cost $47.9M and will take 3.75 years to complete.

180. We expected the planning, development, implementation, and management of information technology and information management systems to support the organization's strategic and operational objectives. We also expected the Corporation to ensure business continuity, and satisfy informational needs at an acceptable cost and on a timely basis. FCC met this criterion, although further improvement is required.

"Big Kahuna" program

181. Project governance for the overall Big Kahuna (BK) program is strong. The Big Kahuna program charter contains a section that includes many details about the various committees that will oversee the program. The most senior committee will be the Executive Steering Committee, consisting of seven vice-presidents from the organization's major areas. Staff members have documented all critical roles and responsibilities and are providing weekly project status reports on the progress of the overall program, and reports about individual projects. A comprehensive communication strategy is in place.

182. Business case. The business case is the foundation of every sound investment decision. For IT projects, the business case explains the rationale for the project and the results that are expected to meet an organization's business needs. The business case for the Big Kahuna initiative is being managed at the program level, due to the extent of shared costs across the BK projects and the fact that most benefits will only be realized when the projects are integrated. The BK projects are essentially divided in two main categories: the technical infrastructure projects and the integration projects. The technical infrastructure projects are foundational in nature (required first), but they are higher in cost and reap the fewest benefits. The integration projects are required later. They are significantly cheaper and will reap the most benefits.

183. Recommendation. As each component of the new system is designed, project governance should continue to ensure that the related costs can be justified by the expected benefits to be derived. All expected benefits generated by the Big Kahuna program should be clearly identified and monitored to ensure that the benefits are realized.

Management response. *Agreed. The program level business case will be updated periodically as the estimated costs and benefits related to each BK project become clearer. Benefits will be monitored.*

184. Organizational capacity. Organizational capacity refers to an organization's technical and managerial ability to deliver an IT project. The Program's business case has identified organizational and skills capacity as being high-impact risks. Having identified these risks, FCC has informed us that it is in the process of completing mitigation strategies.

185. We noted that organizational and skills capacity issues were initially identified as far back as 2004. At that time, two separate reviews arrived at the same conclusions. IT indicated that it would develop a resource strategy/plan that would include a skills availability study and would map IT resources to identify and assess gaps, and to review options. Developing a resource management strategy and plan are specifically mentioned again in a Risk Management Action Plan dated March 2007.

186. Until FCC finalizes these plans and senior managers approve a solution, this will remain a high-risk issue that FCC will have to monitor closely to ensure that it implements the Big Kahuna Program successfully.

187. Recommendation. Farm Credit Canada should approve and implement a clear mitigation strategy and action plan to address capacity and project management concerns identified in the 2004 and 2006 studies.

Management response. *Farm Credit Canada agrees and has implemented several related process improvements over the past three years. IT Management plans to conduct a formal assessment of progress in 2007–08.*

188. Project management methodology. FCC has developed a formal project management methodology that consists of a seven-phase project life cycle, starting with the Project Proposal and ending with delivery of benefits. In 2006, FCC had an external consultant conduct a project management maturity assessment across the organization, including IT. FCC scored slightly lower than the majority of organizations benchmarked for comparison purposes.

189. The report identified a need for more consistent use of project management methodology across the Corporation. As a result, FCC planned to improve processes and practices and drafted an action plan to address the gap between its current state and what it wants to achieve by the 2008–09 fiscal year. This plan is still in draft form, as FCC needs to finalize and approve the resource requirements and timelines. The Big Kahuna Program and the projects that support it are complex. Although FCC has told us that it has the capability to undertake a program of this size, to ensure the Program's success, it is important that the Corporation address the capacity and project management consistency concerns its studies raised.

190. Recommendation. Farm Credit Canada should finalize the project management action plan, and clearly indicate what level of project management maturity it wants to achieve over both the short-term and long-term.

Management response. *Agreed. Farm Credit Canada aspires to achieve a level of maturity which is consistent with the majority of benchmarked organizations in the comparative group. FCC will finalize its project management action plan and improve its practices in order to achieve this objective.*

191. Monitoring development. A review of the project management documentation for the Big Kahuna Program shows that FCC has put the necessary practices in place to monitor development as it progresses. The Program Operating Committee reviews a Risk Issues Register weekly. The Corporation has also put an issue escalation process in place to ensure issues get resolved in a timely manner. It also has contingency plans for each identified risk to ensure that responsibilities for responding to the risks are clear.

Issues of Concern

192. The following contains a limited number of transactions which, in our opinion, were not supported by complete and adequately documented business cases and/or did not respect contracting policies or practices generally followed in the public sector. It should be noted that Farm Credit Canada had the authority to enter into these transactions and they were approved by FCC's Board of Directors when required.

Non-Competitive contracting practices and incomplete and inadequately documented business cases

Training

193. Farm Credit Canada commenced a cultural transformation training initiative in December 2001, that was sole sourced to a US-based training provider. From 2001 to the present FCC has incurred direct costs of $10.23 million, with additional training planned. The majority of the cost was incurred in the 2004–05 and 2005–06 fiscal years. Although this initiative was not initially established as an integral part of an FCC training plan or strategy, according to FCC management it became a significant objective as a result of the benefits accruing and the direct positive feedback from employees across the organization. No formal business case was presented to the Board of Directors in support of this initiative but updates were provided as part of the CEO's report to the Board. In March 2006, the CEO made a full presentation to the Human Resources Committee concerning the full scope of the training and its cost to date as well as its expected future costs. FCC previously worked with three other companies providing teambuilding training, however, management indicated that it was not satisfied with their services.

194. FCC's current procurement policy was put in place in November 2002. FCC did not document or demonstrate its compliance with this contracting policy which was designed to ensure due diligence. Good contracting practices were not followed in this case.

Outsourcing of venture capital

195. In 2002, FCC entered the venture capital market with a targeted investment level of $50 million. By the fall of 2006, FCC had placed $37 million in this market. In late August 2006, the Board of Directors was asked to approve the outsourcing of the management of the existing venture capital portfolio (referred to as the legacy portfolio) and approve a plan that future venture capital investment would be completed through a limited partnership.

196. The Board had not been previously informed of the potential arrangement. Under the proposal, two employees of FCC would resign and establish a company to manage the legacy portfolio for FCC. In addition, a limited partnership would be created for new investments, comprised of the two former employees and a third party, the general partner.

197. The Board originally deferred the approval at the time of the initial presentation until Management provided further information. Approximately two weeks later, the Board approved the arrangement. However, it expressed serious concerns about the process followed by management in presenting this proposal.

198. The Board was not informed of other options. From the evidence we obtained, it did not appear that management had considered alternative investment managers or presented alternative options to the Board. We would have expected that management would have prepared a business case that elaborated upon the chosen option as well as a number of other alternatives, including a more comprehensive analysis of the target market for investment.

199. In addition, the Board was not provided with a formal risk assessment. For example, based on the agreements, it will be difficult for FCC to terminate these contracts. While FCC was aware of this risk, it should have been presented to the Board at the time a decision was requested on the outsourcing proposal. Corporate Audit was also not involved in assessing risk.

200. FCC does not use a consistent content and format for the presentation of business cases to its Board of Directors. Furthermore, FCC does not have an outsourcing policy therefore, there was no comparison of the proposal to such an outsourcing policy.

Outsourcing of information technology

201. FCC outsources a full range of information technology services from an information technology service provider, including infrastructure services, system maintenance, back-up and recovery, and mainframe and server upgrades. In June 2006, FCC proposed and the Board approved a plan to renegotiate its agreement with the service provider before the end of its contract. The contract was renegotiated and extended without going through a competitive bidding process, as FCC did with other IT suppliers at the time of the original contract. Instead, FCC contracted the services of an expert consultant to review, among other things, the contract pricing to ensure that it was consistent with market. Again, as noted above, FCC does not have an outsourcing policy with respect to its outsourcing activities.

202. **Recommendation.** Farm Credit Canada should demonstrate due diligence in the awarding of contracts, and provide the opportunity for others to provide such goods and services.

Management response. *Farm Credit Canada agrees that due diligence is important in the procuring and awarding of contracts, a process that has been followed in most instances. Further, through a recently centralized procurement function, Farm Credit Canada has strengthened its procurement policy and process to better ensure the opportunity is provided to others to supply goods and services and that due diligence associated with awarding the contracts is documented. In the future FCC will ensure that the full extent of the disclosure and dialogue with the Board are documented.*

203. **Recommendation.** Farm Credit Canada should establish major training initiatives as part of a training plan or strategy, and should properly support the initiatives with business cases.

Management response. *Agreed. Farm Credit Canada will complete a learning strategy in 2007–08, which will include guidelines for when and how to complete a business case for corporate learning programs.*

204. **Recommendation.** Farm Credit Canada should establish clear, concise guidelines for proposal presentations to the Board of Directors. It should include, in the guidelines, a standardized Business Case Framework, including options analysis, an internal audit approved risk assessment and valuation criteria, and strong analysis for the option chosen.

Management response. *Farm Credit Canada agrees to review its protocol for submissions to the Board and enhance where required.*

205. **Recommendation.** Farm Credit Canada should develop an outsourcing policy.

Management response. *Farm Credit Canada agrees to review industry best practice for outsourcing policies.*

Compensation

Retention bonuses

206. The Board recently approved significant retention bonus agreements for 10 people at headquarters in Regina, including 6 vice-presidents. The rationale for such retention bonuses was discussed with the Board. However, a formal business case was not presented to the Board in support of these retention bonuses. According to FCC management, the bonuses are designed to facilitate an orderly transition to the new CEO. Some of the retention bonuses were offered to key employees working on major technology overhaul and system replacement projects in the IT area.

Pay and benefits

207. One of FCC's guiding principles is to "pay total cash compensation at the 65th percentile" of a comparative group. According to FCC,

> The 65th percentile means that we set our pay higher than 65 percent of the organizations we compare ourselves to, and lower than 35 percent for performance at the fully competent level.

The comparative group consists of 29 organizations selected by FCC and approved by the Board from the Hay group data base. The group includes some chartered banks and credit unions, as well as some other Crown corporations. The cash compensation is made up of base salary as well as individual, team and corporate bonuses. FCC has made it clear that individuals can exceed the 65th percentile.

Exceeding the 65th Percentile

208. **Corporate reward.** The Hay determination of the 65th percentile for "total cash compensation" includes a corporate reward of 2.5 percent. However, in 2006, a corporate reward of 14.5 percent was paid to all employees. As a result, 79.57 percent of all staff received pay above the 65th percentile. (Without the corporate reward, 52.78 percent were paid above the 65th percentile.) The corporate reward is based on FCC's net income (adjusted) and the reward was previously capped at 5 percent. With the approval of the

Board, this was changed in 2005; now there is no limit. However, the corporate reward is reviewed and approved annually by the Board.

209. FCC's stated philosophy is to share profits in excess of target on an 80/20 (corporation/employee) basis. Although management has indicated that the corporate reward is to recognize extraordinary effort on the part of employees in exceeding corporate targets for net income, it was not clear to us exactly what performance FCC was trying to reward through the use of a corporate bonus, separate from the individual and team bonuses.

210. **Individual and team bonus.** The 65th percentile can also be exceeded through the individual and team bonus. Combined, the individual and team bonus is set at 4.5 percent to 15 percent of base salary, based on level of staff and the external comparative group. The 65th percentile is based on staff receiving 100 percent of the bonus amount. However, at FCC, staff members who perform well may receive up to double the bonus amount (200 percent), although very few receive that amount. Lending targets are a key factor in determining the extent of the bonus for many staff, particularly in field offices. Over the past five years, results have exceeded the lending targets. In 2006, the average bonus payout ranged from 106 percent in Atlantic and Eastern Canada area to 155 percent in the BC/Alberta Western Canada area.

211. **Executive level.** Similar to the individual and team bonuses, executive bonuses depend on the level of the staff member. For example, at the Senior VP level 3, the eligible individual/team bonus as of 2006–07 was 30 percent. At the Executive VP level 1, the eligible individual/team bonus was 40 percent. These bonuses can be as much as doubled if performance is rated as "significantly exceeded." The VP level 1 bonus was increased in 2007 to 46 percent.

212. FCC base salaries are based on a "range." The 65th percentile is based on the mid-point of the range, with bonuses being a percentage of the incumbent's salary. However, some vice-presidents (and other staff) have passed the mid-point. For example, a vice-president's total cash compensation can be considerably higher than the Hay 65th percentile target, if the individual is at the top of the approved salary range.

213. While we recognize that the pay plan provides for salaries above midpoint and bonuses above target, we are concerned that the information provided to the Board does not provide a clear understanding of how actual salaries compare to the Hay Group's 65 percent. Furthermore, because of the complexity of the pay plan, members of the Board should be fully informed on its design, intent, and application.

Employee recognition

214. FCC has established an employee recognition program. It includes awards such as the Bravo Award that recognizes extraordinary effort outside of lending. In 2006 and again in 2007, 12 employees were identified as recipients of the Bravo Award, which was a fully paid trip 5-day trip with spouses to Disney World. The trip included 1-2 days of training at the Disney site to learn about best practices in Customer Experience, which Disney offers to Fortune 500 and other companies.

215. Providing an exceptional customer experience is a key corporate strategy for FCC. Lending staff have an equivalent award called the President's Club, which has existed since 2001. A maximum of 14 employees plus their spouses are invited on a week-long trip. This year's trip was to San Francisco. Previous trips were to San Diego, San Antonio, and Chicago. There is a business component to the trip, such as touring agricultural facilities and presentations from members of the agricultural sector. Two vice-presidents and the President led these trips. FCC and the Board do not have a formal reputation risk policy against which programs of this sort can be reviewed and evaluated.

216. **Recommendation.** Farm Credit Canada should only award retention bonuses that are supported by documented business cases.

Management response. *Agreed. Rewarding of retention bonuses will be supported by documented business cases.*

217. **Recommendation.** Farm Credit Canada should include more documentation and details on the extent of any current and/or potential variance with individual total cash compensation at target to support recommendations to the Board for approval of changes to salary rates and bonuses as well as approval of the Corporate Reward.

Management response. *FCC's consistent practice is to recommend for approval to the Human Resources Committee of the Board of Directors any changes to its compensation program including changes to salary rates and bonuses. Following this process, the Human Resources Committee makes a formal recommendation to the Board of Directors for final approval.*

The target objective for the corporate reward is approved by the Board of Directors at the start of each fiscal. At the end of the year, the results are *tabulated and a formal recommendation is made to the Board for approval of payment of corporate reward. In the future, FCC will ensure that the full extent of the disclosure and dialogue are documented.*

218. Recommendation. Farm Credit Canada should review the purpose, objective and impact of the Corporate Reward against its Total Cash Compensation policy and good management practices.

Management response. *FCC agrees to review the Corporate Reward to ensure it is meeting the objectives of the compensation programs.*

219. Recommendation. Farm Credit Canada should review its awards program against a formal reputation risk policy to ensure that all awards are in keeping with positive public perceptions and the desired image/reputation of FCC as a Crown corporation.

Management response. *Farm Credit Canada agrees to review its awards program to ensure that the awards are in keeping with positive public perceptions and desired image/reputation of FCC.*

Appendix Systems and practices examined and criteria employed in the Special Examination

Systems and practices	Criteria
Lending operations	Farm Credit Canada carries out its lending operations according to approved lending plans and targets, based on the Corporation's portfolio growth and profitability goals and targets.
Credit risk and portfolio management	Appropriate policies, procedures and controls exist that: clearly define Farm Credit Canada's portfolio vision, diversification goals, and portfolio concentration limits; evaluate and rate credit risk on an individual and portfolio basis; identify credit risk problems; estimate credit impairment in the portfolio; and monitor and report on the overall credit risk of the portfolio on an ongoing basis.
Treasury operations	Treasury strategies and programs for funding, investment and risk management are consistent with corporate objectives and risk tolerances. Senior managers should identify, quantify and manage risk exposures. There is appropriate monitoring and reporting of Treasury transactions and activities to management and to the Board, at levels appropriate to these exposures. Internal Audit reviews the Treasury function on a regular basis.
Environment	The Corporation ensures that it identifies, mitigates, monitors, and reports risks related to the environment, consistent with both government expectations and the Corporation's tolerance for risk.
Governance	To maximize its effectiveness and ability to balance public policy objectives with commercial objectives, the Corporation has a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship.
Strategic planning	The Corporation has clearly defined strategic directions and specific measurable goals and objectives to achieve its mandate. Its strategic direction and goals should take into account government priorities, its environment, identified risks, and the financial and operational implications of achieving its goals and objectives.
Performance measurement and reporting	The Corporation has identified performance indicators to measure the achievement of its mandate and its statutory objectives. It should have reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.
Marketing and communication	Farm Credit Canada's marketing plans and practices should be consistent with the Corporation's mandate; supportive of the Corporate mission, vision, objectives and goals; responsive to market needs; and effectively implemented.
Human resources management	Human resources are managed in a manner that provides the Corporation with the core competencies and skills it needs to achieve its goals and objectives economically and efficiently.
Integrated risk management	The integrated risk management framework allows for the identification, evaluation (acceptable tolerance level) and management of all of the important risks Farm Credit Canada faces. The action plan should be communicated, effectively implemented and monitored.
Information technology	The planning, development, implementation and management of information technology systems supports the Corporation's strategic and operational objectives, ensure business continuity and satisfies informational needs with an acceptable cost/benefit ratio and on a timely basis.