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DEPARTMENT OF EXTERNAL AFFAIRS

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LONG-TERM

FINANCIAL MANAGEMENT STRATEGY

FOR MISSIONS ABROAD

Prepared by:

Financial Planning & Analysis Division

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NEED FOR A STRATEGY

There are many reasons that a strategy for future Financial Management initiatives is required in the immediate future. These include:

- the substantial balances of idle cash in post bank accounts around the world; such balances could be earning revenue for the government;
- the opportunity cost of the Government's \$14 million non-interest bearing deposit with the Royal Bank, in exchange for Letter of Credit services;
- the current pressure from the Auditor General for better banking and cash management practices;
- the need for more effective and consistent financial administration practices at Posts;
- the variety of approaches to computerization of financial administration; and
- the challenges from the central authorities to re-examine established past practices.

The adoption of a comprehensive regional strategy would permit the Department to ensure high standards of economy and efficiency.

INTRODUCTION

Policy formulation, co-ordination and administrative support for the post activities are provided by headquarters in Canada, but program delivery occurs primarily at the posts. Therefore, in order to provide high levels of service to the program managers, many financial responsibilities have been delegated to the posts. Accordingly, the majority of posts maintain their own accounting services and local bank accounts. In all but relatively large posts, however, the scale of financial activities does not usually justify having full-time dedicated financial managers. Instead, the financial management tasks are generally performed by a mix of Canadian and locally-engaged staff, with varying degrees of financial training.

In recent years, management and auditors have noted that accounting services, and indeed the overall financial management function, at posts has not been well delivered generally. Specifically, some financial controls have been weak; cash management has been costly; and, there has not been a uniform degree of service provided by different posts.

TOUCHE ROSS & PARTNERS OBSERVATIONSGENERALOperations

- The current system of monthly post financial returns and the forwarding of invoices to headquarters for audit involves considerable amounts of telexing and paper movement to and from Ottawa.
- The post-audit feedback on accounting errors that headquarters provides to posts is generally received several weeks after the fact, making timely correction of the incorrect practice difficult.
- Based on a limited review of bank statements and discussions with post management, the current cash management function is incurring significant opportunity costs, due to large reserve balances.

Service

- Program staff at the posts place high expectations on the financial administration services provided to them, yet there are no service standards to manage by. As a result, misperceptions arise between program and financial staff over issues such as what constitutes a reasonable turnaround time for paying an invoice.
- Program managers frequently do not demonstrate an ability to anticipate their financial requirements, which would permit normal processing of their requests. This lack of discipline puts undue pressure on the financial staff and on the system itself.
- Notwithstanding the above, posts have realistic requirements for a certain amount of ready cash to meet unforeseen circumstances.

Administration

- There is a very limited accountability relationship of post financial staff to financial managers at headquarters in Ottawa. Instead, post staff are accountable to the Head of Post. This can pose problems in that the financial staff have a financial role to play in controlling and approving post disbursements yet they are accountable to individuals whose transactions are being scrutinized.
- The senior financial manager at a post generally "learns on the job", as opposed to having formal training in the requirements of the position. As a result, the managers demonstrate a wide variety of levels of training and experience, and provide varying degrees of financial control and support to program managers.
- In all but relatively large posts, the size and volume of transactions does not justify having a full-time dedicated financial manager. Accordingly, there are practical limitations to the degree of financial expertise these part-time managers can be expected to possess.
- Owing to the diversity of situations which arise at posts, on-the-spot financial judgment is frequently required to approve invoices.

Control

- Historically, there have been very few major problems with theft, misappropriation or loss of funds at posts.
- At a majority of posts the largest share of the budget is allocated to non-discretionary expenditures committed in advance, such as salaries, rent and utilities. Therefore, as long as control over the establishment of such commitments is adequate, there is a much lower level of financial risk than the overall size of post budgets would imply.
- In addition to a post's own budget, there are often large expenditures made on behalf of other government departments (e.g. DND or CIDA). At such posts, these added financial responsibilities increase the requirement for financial control.

POST FINANCIAL ADMINISTRATION ACTIVITIES

<u>Functions</u>	<u>Consultants Observations</u>
<p>1. BUDGETING:</p> <ul style="list-style-type: none"> - annual preparation and submission of the post budget. 	<p>Financial Administration staff generally stated that their role is primarily the co-ordination of the budget projections made by individual program managers based on their operational plans.</p>
<p>2. MONITORING:</p> <ul style="list-style-type: none"> - periodic production of reports showing budgeted and actual expenditures to date, and balance remaining to year-end. 	<p>Program managers receive reports indicating variances between budget and actual, and it is their responsibility to adjust activities accordingly.</p>
<p>3. COMMITMENTS:</p> <ul style="list-style-type: none"> - maintenance of records of financial commitments to ensure that budgets are not exceeded. 	<p>A variety of approaches toward commitment control was noted, which differed primarily by considering either funds that had only been "earmarked", or those that were truly committed. All require the participation of program managers, e.g. to set up amounts, refer to them on subsequent invoices, and indicate when a final payment is made.</p>
<p>4. ACCOUNTING:</p> <ul style="list-style-type: none"> - maintenance of appropriate accounting records and ledgers at the post. 	<p>Different local accounting systems were encountered due to the varying size and complexity of activities at individual posts.</p>
<p>5. MONTHLY RETURNS:</p> <ul style="list-style-type: none"> - reporting of the Post's monthly financial results to Ottawa (either by computer or the use of the "Monthly Post Financial Return" document 412-1), and subsequent reconciliation of post records to Ottawa reports. 	<p>The more automated procedures at FMO Posts generally posed no problems, while the telexing procedure at other posts was time consuming and prone to errors. In both cases, subsequent reconciliation to Ottawa reports was complicated by miscellaneous Ottawa payments.</p>
<p>6. MANAGEMENT REPORTS:</p> <ul style="list-style-type: none"> - production of supplementary financial reports to assist program managers. 	<p>The financial administration activity at posts was confined to the essential processing and reporting functions, and did not encompass additional management reports, e.g. analysing expenses, explaining the effect of changed exchange rates.</p>

FunctionsConsultants Observations7. **ADVICE, COUNSEL:**

- provision of financial advice or assistance when program managers request it, for example with respect to FSD's, FMM and FML's.

All financial administrators reported frequently providing assistance to program managers, especially with respect to F.S.D.'s. This is said to be time-consuming due to the frequent need to interpret "grey areas".

8. **BANKING RELATIONS:**

- maintenance of rapport with bank to ensure smooth functioning of banking arrangements.

Acceptable relations are maintained with all banks. There was little evidence of a regular practice of reviewing banking services or of intentions to negotiate better terms with the banks.

9. **CASH MANAGEMENT:**

- encompasses several activities, including cashflow forecasting, letter of credit drawings, telegraphic transfer requests, and management of cash balances.

Cashflow projections were used to varying degrees at all posts, as the basis for periodic letter of credit draws. Most projections are prepared by the Post Accountant with minimal discussion with Program Managers. The bulk of post disbursements are recurring payroll, rent and utilities. Accordingly, the task should not be particularly difficult. Nevertheless, significant amounts of idle cash are on hand at most posts. As an example, daily balances at some posts for several weeks in late 1984, were ten times the average daily disbursements level. Telegraphic transfers are used primarily for capital projects, and are relatively infrequent.

10. **REVENUES:**

- accounting and control over all forms of revenue received at the Post.

Passport and consular revenues are generally minor and easily controlled. Rent shares for Canadian based staff are deposited in Canadian dollar accounts where they exist, or converted and deposited to the local currency accounts.

11. **PAYROLL:**

- maintenance of payroll data, (regular pay, benefits, etc.) for all locally-engaged staff (LES), and the regular disbursement of pay to them.

Locally-engaged accountants or a local service bureau are used to ensure familiarity with local legislation. There is some use of direct deposit service. Posts have complicated procedures for paying their employees, evidently due to the banking system. The calculation and remittance of deductions for LES who are Canadian residents is handled manually, and only applies to a few employees.

FunctionsConsultants Observations12. **ADVANCES:**

- provision of advances to eligible employees, and the settlement of expended advances.

Hospitality, travel and permanent advances are a major work-generating activity. One advantage of their widespread existence is the ability to avoid last minute cash advance requests by program managers. There was not a precise basis for determining either eligibility for advances nor the appropriate amount. Therefore, considerable discretion is available and required to be exercised. The quarterly and final year-end submission of expenses against hospitality advances causes additional workload.

13. **INVOICES:**

- coding of invoices or verification of coding, verification of delegated authority, and ensuring funds availability.

Payment discounts are rare. At all posts, utility invoices are payable on short (10-15 day) terms; other invoices tend to be either payable on receipt or do not mention terms. In general, all invoices are paid as soon as program managers submit them. No late payment charges were noted. Year-end volume tends to be particularly high as program managers react to year-end cut-off. The overall invoice payment processing time ranges from 2 to 6 business days, with 3 days being typical.

14. **OTHER GOVERNMENT DEPARTMENTS:**

- review and processing of invoices from Other Government Departments and determination of expenditure authority.

The systems readily accommodate payments for O.G.D.'s. However, comments were made that more of DND's payments could be handled and that CIDA payments were increasing.

15. **PAYMENT:**

- issuance of payment for approved disbursements, through a bank account (cheque, bank transfer, direct deposit, etc.)

Brussels and German posts make extensive use of single bank drafts which permit crediting several supplier accounts simultaneously. The other extreme is Rome, where 90% of suppliers pick up their cheques.

FunctionsConsultants Observations

16. URGENT REQUESTS FOR FUNDS:

- facility to provide funds on short.. notice.

In contrast to the frequent call for "emergency" funds at certain posts in the U.S.A., Posts in Europe receive last minute requests for funds infrequently. Most of the Financial Administrators reported they were quite prepared to say "no" to unreasonable demands, and this seems to have now been accepted by many program managers. Accordingly, the existing advances and petty cash funds are sufficient to meet most urgent requirements for funds. Rarely are same day cheques produced, and instead a 24 hour turnaround was considered adequate for "urgent" payments. Finally, to accommodate last minute travel advances in London, a supply of travellers' cheques is now on hand.

17. AUDIT:

- audit of post disbursements (either pre- or post- audit).

The pre-audit function at FMO posts works well, and is accepted. The main complaint on post-audit is the lack of timeliness in receiving audit observations.

18. AUDIT FOLLOW-UP:

- responding to audit observations from Ottawa.

Posts generally respond to audit observations from Ottawa promptly. Complaints were noted about the delay in getting feedback and the resulting re-occurrence of comments until corrections were made. Interpretation issues are the primary source of frustrations.

19. BANK RECONCILIATIONS:

- preparing monthly reconciliation between the bank statement and the post financial records.

Reconciliations are done on a timely basis, and follow-ups are made on cheques outstanding over 60 days. At high volume posts, bank reconciliations sometimes pose problems, including complications created by the foreign banks (e.g. unsupported debits and credits).

20. ADMINISTRATION:

- other general office administration tasks.

General office administration is a large part of the function of financial staff at non-FMO posts.

ESTABLISHMENT OF STANDARDS

A pre-requisite to the delivery of the Financial Management activity is the need to gain agreement on control and service standards. Such an agreement provides a common, accepted understanding of the mandatory and the desirable standards. The standards become the assessment criteria. The following pages outline the recommended service and control standards to be applied at Posts Abroad.

POST FINANCIAL SERVICE & CONTROL STANDARDS

Service Standard

Control Standard

- | | |
|--|---|
| <p>1. BUDGETING:</p> <p>Program managers should receive assistance in preparing budgets, including preparation of support documentation and presentation of the post budget.</p> | <p>Budget figures must be supported adequately and reflect the operational plans in the post. Moreover, a process for developing and justifying the budget at the post level should exist.</p> |
| <p>2. MONITORING:</p> <p>Monthly reports indicating budgetary performance should be provided to program managers; assistance in analysing the results should be available.</p> | <p>Regular reports showing budgeted and actual expenses to date, and available remaining funds, must be distributed to all program managers in a timely, accurate, and complete fashion, and in an appropriate level of detail. The guidelines should be:</p> <ul style="list-style-type: none"> - monthly reports - by resp. centre - by program - by reporting object |
| <p>3. COMMITMENTS:</p> <p>Well organized and readily understood system should be in place to encourage its use by program managers.</p> | <p>Commitment system must track all significant financial commitments made including future payments under non-cancellable leases and service contracts.</p> |
| <p>4. ACCOUNTING:</p> <p>Current figures must be available to individual program managers concerned, within 48 hours of requests.</p> | <p>Accurate and current accounting records must be maintained.</p> |
| <p>5. MONTHLY RETURNS:</p> <p>Do not affect program managers, so no service standard applicable.</p> | <p>Accurately prepared accounting data must be transmitted to Ottawa on a timely basis.</p> |
| <p>6. MANAGEMENT REPORTS:</p> <p>Designed to be useful to the Head of Post and individual program managers, and made available on a timely basis. Regular monthly reports to be available to managers by tenth working day following month-end.</p> | <p>There should be a practice in each Post to create management reports which link operations to financial position and explain or forecast significant events. They must be based on reliable financial data.</p> |

Service StandardsControl Standards

7. **ADVICE, COUNSEL:**
- Must be qualified, experienced, and available within 48 hours normally, and immediately in case of urgent matters.
8. **BANKING RELATIONS:**
- Must be well maintained to ensure that the overall payment system functions smoothly, which is important if cheques are to be honoured promptly, and funds are to be available at all times.
9. **CASH MANAGEMENT:**
- On any given day, must have a bank balance that is sufficient to cover the cheques that will clear that day.
10. **REVENUES:**
- Provide an appropriate safeguarding and control mechanism.
11. **PAYROLL:**
- Financial managers should ensure that all employees are paid correctly and on time. Employees should be on the regular payroll by the first pay period following the date of employment. Changes to employee records should require a maximum of 10 days advance notice.
12. **ADVANCES:**
- Notification of the approval of the advance, and payment of funds is required within five days. Reimbursement (if any) of the submitted claim must be within five days.
- Financial advice should be reliable, and reflect the spirit of and the precedents regarding the Department's regulations.
- Any changes to banking arrangements (e.g. number of accounts, account terms, overdraft procedures) must be approved by Ottawa. Periodic reviews and evaluations of existing arrangements should be done by the Post.
- Cash balances must be monitored daily, and appropriate action taken. Balances are to be minimized while avoiding overdrawn positions.
- All revenues must be accounted for and safeguarded against loss. Deposits to be made in accordance with F.M.M. Section 3.9.
- Calculations of pay and benefits must be exact and payment must only be made in respect to actual work performed. Distribution of pay must be controlled. Understanding of local pay statutes is required.
- Must be accurately recorded, monitored and controlled. The size of advances must be reasonable.

Service StandardsControl Standards13. **INVOICES:**

Within five days of receipt of invoice from program managers, invoices must be reviewed and approved for payment or the manager informed that budget funds are unavailable.

Must be coded correctly and represent bona fide department expenses, and there must be sufficient funds available to cover payment.

14. **O.G.D.'S:**

Within five days of receipt of invoice, it must be reviewed and approved for payment, or the manager informed that budget funds are unavailable.

Must have signatures from appropriate O.G.D. signing officers, and expenditure authority must exist at the Post.

15. **PAYMENT:**

Cheques will be sent three days before the supplier's due date.

Blank cheques/bank drafts must be physically controlled, appropriate signing officers must be authorized, and cheque distribution must be controlled.

16. **REQUESTS FOR URGENT FUNDS:**

Up to \$500.00 in local currency must be available immediately (Petty Cash) and up to \$10,000 within 24 hours.

There must be adequate control over petty cash, travellers' cheques, and any other "last minute" fund mechanisms. These funds should be monitored and restricted.

17. **AUDIT:**

Pre-Audit - Notification of disallowed amounts must be received by program managers within five days of the date the invoice was submitted.

Post-Audit - Audit observations should be received by program managers by the end of the second month following the month of disbursement.

A review of all disbursement documentation must be performed regularly (pre or post audit). Timely notification of irregularities is required; post audit notification should be received at the Post before the end of the second month following the month of the transaction.

Service StandardsControl Standards18. **AUDIT FOLLOW-UP:**

N/A

Audit comments from the Posts are required within 7 days of receipt. Modification of the incorrect procedure is required.

19. **RECONCILIATIONS:**

N/A

To be done by someone independent of the cheque signing officer, on a timely basis.

20. **ADMINISTRATION:**

Provision of qualified personnel to undertake such administrative tasks.

Briefing to new program managers on administration practices within two months of assuming their responsibilities.

Half-day "refresher" sessions offered annually to program managers.

To be carried out in a responsible manner with due regard to economy.

REGIONAL SERVICE CENTRES

To improve service and control, the delivery of financial services has been centralized in the United Kingdom (at London), France (at Paris), and the United States of America (New York served by Washington). During 1985, financial activities for all posts in Germany will similarly be centralized at Bonn.

The term the Department has commonly used to describe this centralization of financial activities is regionalization. Specific benefits through regionalization include:

- reduction of the administrative workload at posts, with resource redeployment to higher priority activities including management of budgets and forecasts;
- centralization of letters of credit, banking administration, auditing of accounts, and cheque issuance;
- elimination of the monthly post financial returns currently required;
- reduction of costs for letter of credit administration;
- improved financial administration information for control and analysis; and,
- improved cash management and savings on currency purchases.

The overall objective of regionalization of financial services abroad is:

- to improve financial administration in terms of financial control, financial services, and the delegation of Receiver General responsibilities for operations abroad.

It must be emphasized that regionalization does not effect the Head of Post's authority in managing the financial affairs of his Mission. Preparation of annual estimates, budget allocations and transfers, purchases of goods and services, commitment control, certification of accounts for payment and the personnel administration of his staff continue to be his responsibility. However, the system does require that the service centre be notified of these financial decisions in a prescribed manner.

Where the concept can be applied, there are obvious benefits in the form of pre-audit of accounts, centralized accounting and cheque issue, timely financial reporting and direct communication with a specialized financial officer and dedicated staff, who share a knowledge of regional customs and problems.

The next page identifies the segregation of functions.

MAJOR FINANCIAL FUNCTIONS AT POSTS
UNDER SERVICE CENTRE CONCEPT

Post

Regional Financial Unit

1. Calculating price increases for Main Estimates.	1. Providing information and assisting in calculating price increases for Main Estimates.
2. Preparing post budget submission.	2. Providing information and assisting in preparing post budget submission.
3. -	3. Setting up post bookkeeping system.
4. -	4. Letter of credit administration and banking administration.
5. Requisitioning goods or services.	5. -
6. Certifying goods were received or services rendered.	6. -
7. -	7. Auditing of invoices and claims.
8. -	8. Maintaining the post bookkeeping system.
9. -	9. Preparing, signing and distributing cheques.
10. Provide information on the preparation of the payroll.	10. Preparing, recording and payment of payroll.
11. -	11. Preparing post financial return.
12. -	12. Reconciling post financial return with bank statement.
13. -	13. Issuing, recording, reconciling and controlling accountable advances.
14. -	14. Preparing financial management reports.
15. Preparing variance analysis reports.	15. Providing information and assisting in preparing variance analysis reports.
16. Financial forecasting	16. Financial forecasting
17. -	17. Budget/expenditure reporting to HQ's.
18. -	18. Responding to headquarters observations.
19. -	19. Responding to financial audit observations and recommendations.
20. Currency reporting	20. -
21. Collection of rent shares	21. Receiving, recording and remitting rent shares.
22. Financial administration of FSD's	22. Advising on financial administration of FSD's.
23. Collecting passport and consular fees.	23. Receiving, recording and remitting passport and consular fees.
24. Operating a petty cash account.	24. -

**FACTORS TO CONSIDER IN CENTRALIZING FINANCIAL
ADMINISTRATION ACTIVITIES**

The following list identifies several factors to be considered in evaluating whether an activity can be centralized. Based on a recent review of the European environment, it appears that these factors should continue to be important considerations when evaluating a Post's suitability for regionalization. Although a Post which has historically been weak in service and control standards would normally be a likely candidate for regionalization, there are several aspects of the proposed arrangement which must be considered. Eight such key factors are discussed in the following paragraphs:

Geographic Proximity of Posts - If a Post is so far from the proposed central location that budgeting and related financial assistance could not be readily provided (e.g. travel or communications complications), there may be an important loss of service if the Post was regionalized.

Ease of Document Flow - To permit posts to be served by a central location on a timely basis, there must be mail, courier, or other means of transporting documentation between the two locations daily, and rapidly. Although such delivery systems are available in most parts of the world, the costs will clearly have to be compared to the potential benefits of regionalization.

If the proposed location is within the same country as the post being considered for regionalization, the local mail system would be the first mechanism examined. Where documents would have to be sent between countries, however, the longer delays associated with different jurisdictions could result in an inability to provide the requisite levels of service.

Banking Environments - A key aspect of regionalization is the centralization of funds at the central location. In order to accommodate payments at a regionalized post, appropriate service arrangements must be in place with banks in both locations. Where such services cannot be offered at a reasonable cost, or government restrictions/regulations preclude arranging such services, it may not be feasible to regionalize the post. Such regulations risk posing problems primarily where the central location is in a different country (e.g. soft currency country with exchange restrictions).

Reality of Cash Economies - When posts being considered for regionalization operate in jurisdictions where there is a genuine requirement for significant payments in the form of cash, the amount of such requirements must be reviewed to determine whether they can be easily met by transfers of funds from a central location. Where the bulk of such a post's budget continues to be payroll, rent and utilities not paid in cash, there may continue to be merit in regionalizing the post.

Time Zones - It would be unrealistic to consider serving a post located in a time zone that is six or more hours different from the central location, since communication of financial advice and assistance would only be possible for an hour each day, (e.g. Paris served by Ottawa). Accordingly, the time zones of both the post being considered for regionalization and of the proposed FMO location must be considered to determine whether their business days overlap significantly.

For this reason, it is likely that a central location could serve posts located in as many as three time zones on each side of it, encompassing operations in a total of six different zones. The central location would then be able to offer assistance to the eastern-most post from 10 AM to 2 PM (when it is 1 - 5 PM at the post), and to the western-most post from 1 - 3 PM (when it is 10 AM to noon at the post).

Size of Operation - When considering whether a post should be regionalized, the implications of its size (as reflected by the number of staff, programs, etc.) must be evaluated. For example, a small post likely has fewer requests for financial advice so these requests could be answered relatively easily from a distant location. At the other extreme, a large post with more frequent requests for financial counselling would suffer a greater loss of service when that function was moved offsite. These two situations suggest that regionalization would be more appropriate for the small post, while other considerations (opportunity for significant staff savings, economies of scale, etc.) tend to reflect the opposite.

Volume of Transactions and Size of Budget - the financial scale of posts being considered for regionalization will affect the decision as to which posts should be regionalized first. For posts with the largest levels of disbursement, regionalization could be provided at relatively low unit cost, which would be attractive.

However, the smaller posts for which regionalization could offer the greatest improvements in control, would incur relatively higher unit costs when being served from a distant location.

Availability of and Ability to Retain Trained Staff - For any post which has historically had problems recruiting and retaining adequately trained financial staff, regionalization offers financial expertise from a central location and would be desirable from both control and service viewpoints.

There may also be posts where the lack of well-trained staff is not a result of the operating environment, but rather the generally weak level of training which Canadian-based junior managers have received. Where this is the case, it is clear that regionalization is not the only possible solution; its costs and benefits should be compared to the option of providing more extensive financial training for staff to be assigned to financial positions at posts abroad.

ALTERNATIVE REGIONALIZATION CONCEPTS

As discussed earlier, regionalizations have involved a common series of changes to the way that financial management is conducted at a post. This all-inclusive approach to regionalization has been the one which best met the objective of financial administration at these posts, all of which were large operations. In identifying additional posts to be regionalized in the future, however, the approach to regionalization which best achieves this objective may vary according to the characteristics of the individual post considered.

The concept which is most appropriate for a given post can only be determined based on an analysis of which activities should be regionalized, and the proposed evaluation framework presented in the next section is intended to assist with such an analysis. It is clear in advance, though, that many posts may benefit from the regionalization of certain activities even if complete regionalization is not justified.

The following three basic concepts are introduced to delineate the different degrees of regionalization which may be most appropriate at different posts. The first of these is consistent with the complete regionalization approach that now exists in Washington, London and Paris; the third concept is closest to the current situation at non-regionalized posts, and primarily entails superimposing regionalized data processing on the post activities. The second concept is a compromise between Concept A and C.

CONCEPT A

All financial administration activities are centralized in one location where all the financial staff are located.

This approach would provide the highest levels of financial expertise and control by centralizing the financial specialist(s) who would serve a number of surrounding posts. It would be most feasible where there is common or interchangeable currency and communications can be made readily between the central location and the outlying posts.

One of the activities which would offer significant financial benefits if regionalized, is banking. The pooling of funds from several posts at a regional location would justify employing a manager with cash management expertise who would:

- minimize idle funds in non-interest bearing accounts;
- arrange to put surplus funds into interest-bearing deposits;
- purchase foreign currency frequently in countries with a high risk of currency devaluations so as to minimize exchange losses from holding weak currencies; and,
- purchase foreign currencies at the best available rates.

*Are we allowed to do this?
Good cash management leaves
Surplus funds with the Central
Treasury i.e. are not drawn down
before required.*

Some countries that currently employ cash management specialists to reduce the cost of foreign operations, have these specialists perform an additional function: "Playing the float". This procedure maximizes the interest revenue received, by transferring funds required to cover the amount of cheques expected to be redeemed that day, into the chequing account on which the cheques are drawn. Because large numbers of cheques which are prepared in a day are frequently not redeemed until several days later, leaving the funds to cover these payments in an interest-bearing form during the additional days can be very profitable. Nevertheless, there is some risk involved in this technique since on occasion cheques presented for redemption may exceed the funds available in the chequing account. For this reason, not all governments are willing to undertake such operations.

KITING !

It should be noted that although all financial activities are regionalized under Concept A, including major banking, each post could be provided with an emergency cash facility. If communications with the central location were excellent, this could simply take the form of wire transfers to a correspondant bank near the post; more common, however, would be a reasonable balance of petty cash and/or a small imprest bank account located near the post.

Finally, with all financial staff located at a central location, financial expertise and advice needed by program managers at the post would be provided by telephone or telex if urgent, or by the mail otherwise. Assistance in the annual budget preparation process would be provided when the financial staff visit the posts at regular intervals.

CONCEPT B

All financial administration activities at the post are under the direct responsibility of a centrally-located financial manager who has financial support staff located at the post itself, but reporting to him/her. Certain of the activities would be performed regionally and others at the post.

This approach would accommodate situations where it is not practical or desirable to regionalize certain financial activities, due to the particular circumstances at a post. Each activity would be considered on its own merits to determine whether it should be regionalized or remain at the post. For example, if a study of cash management as currently performed by individual posts indicates that the regionalization of banking should become a top priority, Concept B could be implemented initially as an interim stage of regionalization. At a subsequent date, the other activities of each post could be analysed for their potential for regionalization.

Concept B is basically a compromise between A, where all activities are performed regionally as discussed earlier, and C, which is based on the existing arrangements in most posts.

CONCEPT C

The financial administration activities take place at the post under the authority of a financial manager working there, but financial records and reports are generated using a centralized data processing approach.

Concept C would be most suited to posts where most of the financial administration activities are currently performed in accordance with appropriate control and service standards and at a reasonable cost. In such cases, the prime functions of regionalization would be the provision at the regional level of two services that are currently maintained in Ottawa: financial report preparation and an audit function. Locating these two activities nearer to the post would make management reports available much faster, would eliminate the need to send invoices to Ottawa for audit, and would provide more timely audit feedback to the post.

Although the feasibility of regionalizing banking will vary for each post, it may be very advantageous to centralize significant parts of this activity under Option C, where possible. Although financial staff located at the post would prepare cheque requisitions, two alternatives exist for the cheque issuance activity. Either the local staff could issue cheques drawn on a local bank account whose balance is managed in collaboration with the regional staff, or cheques could be drawn on an account that is located centrally and managed regionally. The appropriate choice would depend on the specific circumstances of the post and region under consideration.

The generation of financial reports under Option C would make use of varying degrees of data input automation depending upon transaction volumes, the ease of communications and cost; for example, the most appropriate form of automation could be to forward actual paperwork to the regional location for input; to telex lines of financial coding, or to enter data on remote terminals.

DETERMINATION OF REGIONALIZATION POTENTIAL

To date, regionalization initiatives have addressed high-volume posts which had the highest payback for improvement. There is a need to gain agreement on a formal long-range plan so as to assess the priorities and costs. Accordingly, an assessment framework can be used to determine the candidate posts for centralization. Each post should be assessed, based on its historical performance and current capability. In parallel with this activity, potential posts that could serve as the central post should be identified. Using the assessment framework, the feasibility of linking the candidate posts to the central posts would need to be determined. From this exercise, the potential size and scope of regionalization could be determined.

The following five-step process is intended to lead directly to a decision on which financial administration activities should be centralized at a post. The steps are:

1. Identify the current financial administration requirements at the post under consideration, each of which corresponds to a financial activity now being performed at a post.
2. Determine, for each activity, whether the function could be regionalized, taking into account the country and post characteristics. This assessment of whether it is even practical to perform some of the activities at a location other than the post, is required before consideration of the related costs and benefits.
3. Based on financial management observations, inspections, audits and other reviews, determine whether each financial activity is currently being performed at the post in accordance with pre-established control and service standards.

It should be noted that where a post has not met certain standards in recent years, it is not intended that this review simply be used as a "reminder" mechanism to give posts additional time to demonstrate the necessary standard. Rather, the fact that historically the standard has not been met is used as justification for considering the post for regionalization initiatives immediately.

4. Based on the results of the preceding two analyses ("Can the activity be regionalized?" and "Are control and service standards being met currently?"), apply a decision matrix to each activity individually to determine whether regionalization of that activity would be appropriate.
5. Finally, accumulate the decision results for all the activities to make an overall decision as to whether to regionalize the post's financial administration activities. Where almost all activities appear to justify being regionalized, Concept A will be the most appropriate approach; where only certain activities merit being regionalized, a final decision will be required as to whether Concept B or Concept C will best suit the situation of the individual post.

It should be reiterated that to apply this regionalization framework effectively, financial managers with sufficient knowledge of the factors in question are essential. Also, as mentioned previously, both the financial administration requirements at posts and the minimum control and service standards must be agreed to before all parties to be affected by the regionalization decision process can be expected to accept the proposed methodology.

FINANCIAL ADMINISTRATION REQUIREMENTS AT POSTS*

1. Budget preparation
2. Ongoing budget monitoring and forecasting
3. Budgetary/commitment control and reporting
4. Maintenance of general ledger and subsidiary ledgers
5. Preparation of monthly post financial returns
6. Management report preparation, variance analysis
7. Financial advice/assistance, administration of foreign service directives
8. Banking relations
9. Letter of credit administration/cash management (incl. foreign exchange reporting)
10. Revenue accounting and control
11. Payroll maintenance for locally-engaged staff and liaison for Canada-based staff, e.g. pensions
12. Administration of and reporting for accountable advances
13. Invoice payment authorization and account coding
14. Payment processing on behalf of O.G.D.'s (incl. DND, CIDA)
15. Cheque issuance
16. Emergency payment facility/petty cash administration
17. Audit of revenues and disbursements (could be pre or post audit)
18. Responding to audit observations/recommendations
19. Bank reconciliations to post financial return
20. General office administration tasks (inventories, requisition of goods, etc.)

*The financial administration activities currently undertaken at posts correspond to this list of requirements with the exception of the audit function (#17) which is currently provided by headquarters; under a regionalization scenario, this function could be provided at the regional location.

FACTORS TO CONSIDER WHEN ASSESSING WHETHER AN ACTIVITY
CAN BE CENTRALIZED

- Geographic proximity of posts
- Ease of document flow (a) in-country
(b) cross border
- Banking regulations, restrictions, services
(a) in-country
(b) cross border
- Availability of trained staff and ability to retain them
- Size of operation (# of staff, # of staff quarters, etc)
- Volume of transactions - total at post
- Magnitude of total expenditures made at post (incl. OGD's)
- Size of External Affairs (only) budget
- Magnitude of discretionary expenditures
- Time zones (Possible service implications)

A PRELIMINARY ACTION PLAN

The following pages outline a "first cut" as to what the future framework might look like. It is emphasized that this is only a first glance, as substantial discussion and analysis will be required.

However, this "first cut" is needed in order to identify regionalization potential; savings which could accrue as a result of better cash management; the management capability required to delivery; along with what can be expected in automation in the years ahead.

We could expect the following:

	<u>Mini- Computers</u>	<u>Satellite Centres</u>	<u>Micro- Processors</u>	<u>Local Cash Managers</u>	<u>Canadian Financial Officers</u>
United States	2	13	-	1	3
Europe	-5	31	2	3	7
Asia & Pacific	5	12	1	2	4
Africa & Middle East	3	20	2	3	5
L.A. & Caribbean	3	11	3	3	4
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	18	87	8	12	23
Presently deployed	5	-	3	-	8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Increases	13	87	5	12	15
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL SERVICE CENTRES

UNITED STATES

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u> <u>C.B.</u>	<u>LES</u>	<u>Annual</u> <u>Exp</u> <u>(\$000)</u>	<u>No. of</u> <u>Transactions</u>	<u>Ave. Bank</u> <u>Balance</u> <u>(\$000)</u>	<u>Cost of</u> <u>Money</u> <u>at 10%</u>	<u>Facility</u>	<u>Manager</u>
Washington	Washington	108	102)					Mini- computer	Canadian Financial Officers (2) Local cash manager
	Washington-OAS	3	3)	37,000	35,800	836			
	NY-Con.Gen.	35	58)						
	NY-Permis	30	7	3,300	2,000	71			
	Boston	12	28	3,200	2,800	134			
	Detroit	10	22	1,600	2,400	55			
	Cleveland	8	16	1,300	2,200	46			
	Philadelphia	6	11	1,200	1,300	43			
	Buffalo	7	19	1,400	1,400	57			
	Atlanta	10	25	2,200	2,500	42			
Chicago	13	30	2,900	2,500	104				
Minneapolis	7	15	1,400	1,800	33				
		<u>249</u>	<u>336</u>	<u>55,500</u>	<u>54,700</u>	<u>1,421</u>	<u>142</u>		
Los Angeles	Los Angeles	16	33	2,800	3,100	124		Mini- computer	Canadian Financial Officer
	San Francisco	12	28	2,400	2,200	58			
	Seattle	11	28	1,800	2,800	59			
	Dallas	10	21	2,000	2,600	57			
		<u>49</u>	<u>110</u>	<u>9,000</u>	<u>10,700</u>	<u>298</u>	<u>30</u>		

FINANCIAL MANAGEMENT SERVICE CENTRES

EUROPE

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u>		<u>Annual</u>	<u>No. of</u>	<u>Ave. Bank</u>	<u>Cost of</u>	<u>Facility</u>	<u>Manager</u>
		<u>C.B.</u>	<u>LES</u>	<u>Exp</u>		<u>Balance</u>	<u>Money</u>		
				<u>(\$000)</u>		<u>(\$000)</u>	<u>at 10%</u>		
London	London	78	194)	28,000	25,500	1,400		Mini-computer	Canadian Financial Officers (2). Local Cash Mgr.
	Glasgow	-	3)						
	Dublin	6	16	1,200	1,100	27			
	Helsinki	5	15	600	1,100	13			
	Stockholm	12	28)	2,700	2,600	64			
	Stockholm CDE	5	1)						
	Oslo	9	17	1,200	1,100	25			
	Copenhagen	8	20	1,800	1,900	57			
	The Hague	16	37	2,500	3,500	57			
		<u>139</u>	<u>331</u>	<u>38,000</u>	<u>36,800</u>	<u>1,643</u>	<u>164</u>		
Bonn	Bonn	41	61	6,000	8,200	265		Mini-computer	Cdn. Fin. Off.
	Dusseldorf	3	11	800	1,100	32			
	Hamburg	3	13	900	1,600	30			
	West Berlin	2	5	600	700	17			
	Munich	5	8	1,100	1,800	24			
	Frankfurt	3	3	Bonn	200	-			
			<u>57</u>	<u>101</u>	<u>9,400</u>	<u>13,600</u>	<u>368</u>		
Moscow	Moscow	38	38	1,600	1,600	24	3	Micro-processor	Rotational AS Officer
Warsaw	Warsaw	23	31	1,800	2,600	54	6	Micro-processor	Rotational AS Officer

EUROPE (Cont'd)

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u>		<u>Annual Exp (\$000)</u>	<u>No. of Transactions</u>	<u>Ave. Bank Balance (\$000)</u>	<u>Cost of Money at 10%</u>	<u>Facility</u>	<u>Manager</u>
		<u>C.B.</u>	<u>LES</u>						
Paris	Paris	73	153)	18,000	16,600	877		Mini-computer	Cdn. Fin. Officers (2) Local cash mgr.
	OECD	11	6)						
	UNESCO)						
	Marseilles	6	14)						
	Strasbourg	4	8)						
	Brussels	29	59)	9,600	7,800	140			
	Brussels EEC	17	7)						
	NATO	31	7)						
	Geneva	28	12	2,400	2,200	85			
	Berne	9	25	1,500	1,900	60			
	Lisbon	9	27	1,000	1,600	34			
	Madrid	12	24	1,500	1,800	39			
	Rabat	9	29	1,400	1,800	100			
	Tunis	12	19	1,400	3,200	226			
	Algiers	14	27	1,200	2,700	158			
		<u>264</u>	<u>417</u>	<u>38,000</u>	<u>39,600</u>	<u>1,719</u>	<u>172</u>		
Vienna	Vienna (MBFR)	24	36	3,000	2,500	99		Mini-computer	Cdn.Fin.Off.
	Prague	16	23	900	1,700	19			
	Belgrade	26	38	1,900	2,300	96			
	Budapest	15	17	1,200	1,400	15			
	Bucharest	12	18	800	1,600	78			
			<u>93</u>	<u>132</u>	<u>7,800</u>	<u>9,500</u>	<u>307</u>		

EUROPE (Cont'd)

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u>		<u>Annual</u>	<u>No. of</u>	<u>Ave. Bank</u>	<u>Cost of</u>	<u>Facility</u>	<u>Manager</u>
		<u>C.B.</u>	<u>LES</u>	<u>Exp</u>		<u>Transactions</u>	<u>Balance</u>		
				<u>(\$000)</u>		<u>(\$000)</u>	<u>at 10%</u>		
Rome	Rome	27	53	4,200	5,300	307		Mini-computer	Cdn. Fin. Off.
	Milan	6	21	1,300	1,500	88			
	The Vatican	4	9	900	1,000	24			Local cash mgr.
	Athens	16	37	1,400	2,200	74			
	Ankara	10	23	1,000	1,400	20			
		<u>63</u>	<u>143</u>	<u>8,800</u>	<u>11,400</u>	<u>513</u>	<u>51</u>		

FINANCIAL MANAGEMENT SERVICE CENTRES

ASIA & PACIFIC

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u>		<u>Annual Exp (\$'000)</u>	<u>No. of Transactions</u>	<u>Ave. Bank Balance (\$'000)</u>	<u>Cost of Money at 10%</u>	<u>Facility</u>	<u>Manager</u>
		<u>C.B.</u>	<u>LES</u>						
Tokyo	Tokyo	49	98	12,500	6,300	386		Mini-computer	Cdn. Fin. Off.
	Seoul	14	28	2,700	1,800	41			
		<u>63</u>	<u>126</u>	<u>15,200</u>	<u>8,100</u>	<u>427</u>	<u>43</u>		
Canberra	Canberra	17	17	2,400	3,100	99		Mini-computer	Cdn. Fin. Off.
	Sydney	7	22	1,800	2,100	95			
	Melbourne	4	11	1,500	1,400	49			
	Perth	1	5	Canberra	-	-			
	Wellington	8	15	1,600	1,600	13			
	<u>37</u>	<u>70</u>	<u>7,300</u>	<u>8,200</u>	<u>256</u>	<u>26</u>			
Hong Kong	Hong Kong	32	68	4,200	4,000	135	14	Mini-computer	Rot. AS Off.
Peking	Peking	35	33	1,600	2,200	36	4	Micro-processor	Rot. AS Off.
Singapore	Singapore	17	30	3,600	2,700	52		Mini-computer	Cdn. Fin. Off. Local cash mgr.
	Kuala Lumpur	11	19	1,400	1,900	80			
	Jakarta	21	39	8,000	3,900	54			
	Manila	22	41	3,700	2,800	174			
	Bangkok	28	51	5,000	3,600	546			
	<u>99</u>	<u>180</u>	<u>21,700</u>	<u>14,900</u>	<u>906</u>	<u>91</u>			
New Delhi	New Delhi	44	174	3,600	4,600	173		Mini-computer	Cdn. Fin. Off. Local cash mgr.
	Islamabad	21	147	3,300	2,600	87			
	Dhaka	14	88	3,600	1,900	77			
	Colombo	9	27	2,400	2,000	198			
	<u>88</u>	<u>436</u>	<u>12,900</u>	<u>11,100</u>	<u>535</u>	<u>54</u>			

FINANCIAL MANAGEMENT SERVICE CENTRES

AFRICA & MIDDLE EAST

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u> <u>C.B.</u>	<u>LES</u>	<u>Annual</u> <u>Exp</u> <u>(\$000)</u>	<u>No. of</u> <u>Transactions</u>	<u>Ave. Bank</u> <u>Balance</u> <u>(\$000)</u>	<u>Cost of</u> <u>Money</u> <u>at 10%</u>	<u>Facility</u>	<u>Manager</u>	
Cairo	Cairo	23	44	2,600	3,900	146		Mini-computer	Cdn. Fin. Off.(2)	
	Riyadh	14	24	2,800	1,800	166				
	Kuwait	10	16	1,300	1,200	44				
	Abu Dhabi	5	6	2,000	1,500	83				Local cash mgr.
	Amman	10	17	1,300	1,700	37				
	Damascus	8	17	2,000	2,500	100				
	Baghdad	9	18	1,200	1,200	30				
			<u>79</u>	<u>142</u>	<u>13,200</u>	<u>13,800</u>	<u>606</u>			<u>61</u>
Tel Aviv	Tel Aviv	18	30	3,700	2,500	40		Micro-processor	Rot. AS Officer	
Pretoria	Pretoria	12	21	2,400	2,500	128		Micro-processor	Rot. AS Officer	
Abidjan	Abidjan	21	53	3,900) 3,500)	4,900	120		Mini-computer	Cdn. Fin. Off (2)	
	Conakry	3	21	2,000	700	178				
	Dakar	13	20	5,800	3,200	263				Local Cash Mgr
	Accra	11	23	1,100	1,000	35				
	Lagos	14	36	2,500	1,700	151				
	Bamako	3	19	2,800	1,500	155				
	Niamey	3	12	2,400	1,400	93				
	Yaounde	14	43	1,900	1,700	145				
	Libreville	2	9	800	800	52				
	Kinshasa	13	42	2,400	3,300	62				
		<u>97</u>	<u>278</u>	<u>29,100</u>	<u>20,200</u>	<u>1,254</u>	<u>125</u>			

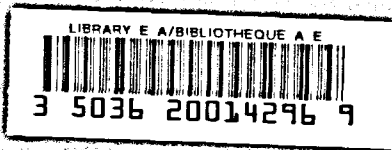
AFRICA & MIDDLE EAST (Cont'd)

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u>		<u>Annual Exp (\$000)</u>	<u>No. of Transactions</u>	<u>Ave. Bank Balance (\$000)</u>	<u>Cost of Money at 10%</u>	<u>Facility</u>	<u>Manager</u>
		<u>C.B.</u>	<u>LES</u>						
Nairobi	Nairobi	22	35	5,000	2,100	117		Mini-computer	Cdn. Fin. Off.
	Dar-es-Salaam	14	21	1,500	1,700	33			
	Harare	12	15	1,500	1,700	63		Local cash mgr.	
	Lusaka	9	17	1,500	2,700	59			
	Kigali	3	17	3,600	1,000	178			
	Addis Ababa	8	37	1,200	1,000	400			
		<u>68</u>	<u>142</u>	<u>14,300</u>	<u>10,200</u>	<u>850</u>	<u>85</u>		

FINANCIAL MANAGEMENT SERVICE CENTRES

LATIN AMERICA & CARIBBEAN

<u>Centre</u>	<u>Servicing</u>	<u>Positions</u>		<u>Annual Exp (\$000)</u>	<u>No. of Transactions</u>	<u>Ave. Bank Balance (\$000)</u>	<u>Cost of Money at 10%</u>	<u>Facility</u>	<u>Manager</u>
		<u>C.B.</u>	<u>LES</u>						
Mexico	Mexico	27	52	4,000	5,000	67		Mini-computer	Cdn. Fin. Off.
	Guatemala	9	18	2,800	2,500	54			
	San Jose	16	23	3,300	2,500	241		Local cash mgr.	
		<u>52</u>	<u>93</u>	<u>10,100</u>	<u>10,000</u>	<u>362</u>	<u>36</u>		
Bridgetown	Bridgetown	17	24	4,200	2,300	164		Mini-computer	Cdn. Fin. Off.
	Kingston	24	50	3,300	4,300	143			
	Port of Spain	15	33	3,000	2,700	232		Local Cash Mgr.	
	Georgetown	13	32	1,800	1,800	90			
		<u>69</u>	<u>139</u>	<u>12,300</u>	<u>11,100</u>	<u>629</u>	<u>63</u>		
Havana	Havana	15	28	1,800	2,200	60	6	Micro-processor	Rot. AS Officer
Port-au-Prince	Port-au-Prince	12	40	1,400	1,800	102	10	Micro-processor	Rot. AS Officer
Brasilia	Brasilia	13	39	4,900	2,800	45		Micro-processor	Rot. AS Officer
	Sao Paulo	4	20	1,100	1,800	12			
		<u>17</u>	<u>59</u>	<u>6,000</u>	<u>4,600</u>	<u>57</u>	<u>6</u>		
Lima	Lima	16	34	4,900	4,100	167		Mini-computer	Cdn. Fin. Off. (2)
	Bogota	14	31	3,300	3,300	96			
	Caracas	14	24	3,200	2,700	37		Local cash mgr.	
	Quito	5	10	800	1,800	42			
	Santiago	10	23	1,500	2,300	32			
	Buenos Aires	11	30	1,800	2,700	41			
	<u>70</u>	<u>152</u>	<u>15,500</u>	<u>16,900</u>	<u>415</u>	<u>42</u>			



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