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Survey of certain aspects of the  
Department of External Affairs'  
system of financial administration  
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May 31, 1968.

Mr. Marcel Cadieux,  
Under-Secretary of State for External Affairs,  
Department of External Affairs,  
Ottawa, Canada.

Dept. of External Affairs  
Min. des Affaires extérieures

NOV 19 1968

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Dear Mr. Cadieux:

As requested by you, we have undertaken a survey of certain aspects of the Department of External Affairs' system of financial administration. In the report that follows, we set out our findings in this connection, along with our recommendations for the establishment of an effective system of responsibility accounting for the Department.

The survey was carried out by a team consisting of two members of our firm and four government employees, two from your Department and two from other departments. The government staff engaged in the survey were as follows:

Mr. G. F. Farrow	Senior Administrative Officer Trade Commissioner Service Department of Trade and Commerce
Mr. R. Gregson	Senior Auditor Inspection Services Department of External Affairs
Mr. D. G. MacDonald	Accounting Advisory Officer Accounting Advisory Services Comptroller of the Treasury Department of Finance
Mr. B. R. Warren	Deputy Head (Planning) Finance Division Department of External Affairs

43-260-663

We would like to acknowledge the very valuable contribution made by these individuals to the study. Many of the proposals set out in this report originated with them. We would also like to express our appreciation for the assistance and cooperation that we received from everyone in the Department with whom our survey brought us into contact.

When you have had an opportunity to review our report, we would be pleased to discuss any of the proposals contained in it with you or your staff at your convenience, or to assist in its implementation if you so desire.

Yours very truly,

Woods, Gordon & Co.

## INTRODUCTION

### The Department of External Affairs

#### Historical Background

The Department of External Affairs was established approximately sixty years ago to deal with matters concerning Canada's relations with foreign governments.

It started off in a very modest way with a staff of an Under-Secretary and a handful of clerks. Canadian diplomatic interests abroad were handled by British diplomatic and consular authorities in the countries concerned, although a certain number of trade commissioners and immigration officials had been appointed by their respective departments to represent Canadian interests in these areas in selected countries.

The Department expanded its operations between 1926 and 1929 as legations were opened in Washington and Tokyo and the Commissioner-General in Paris was appointed Minister to France. This period of expansion was followed by ten years of consolidation up to the outbreak of the Second World War.

The need created by the war for closer and more direct contacts with Commonwealth and Allied governments led to a rapid increase of diplomatic exchanges with these and other foreign countries, principally in Europe and Latin America. Membership in the United Nations and other international organizations such as NATO, UNESCO, OECD, etc. also increased Canada's responsibilities outside its own borders and a number of permanent missions and delegations were established to represent Canada on these various bodies and their committees.

Present Stage of Development

At the present time, Canada conducts its external relations with slightly over 100 countries through embassies and High Commissioners' offices in 63 of these countries and the accreditation of non-resident Ambassadors and High Commissioners in the remainder.

The main functions of the Department, as set out in Reference Paper No. 69 issued by its Information Division, are as follows:

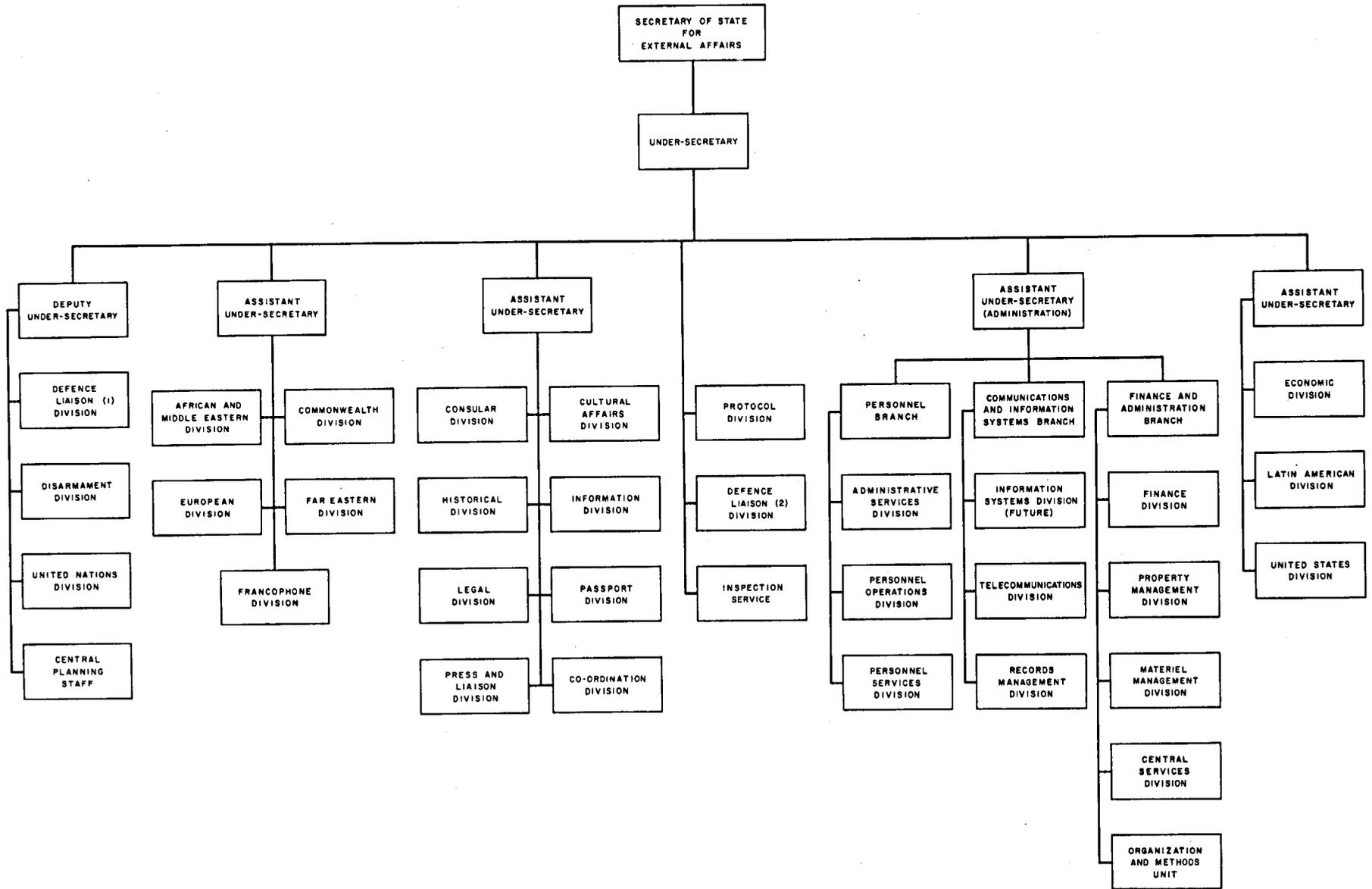
- a. the supervision of relations between Canada and other countries and of Canadian participation in international organizations; the protection of Canadian interests abroad;
- b. the collation and weighing of information regarding developments likely to affect Canada's international relations;
- c. correspondence with other governments and their representatives in Canada;
- d. the negotiation and conclusion of treaties and other international agreements;
- e. the representation of Canada in foreign capitals and at international conferences.

These functions are carried out by a staff of approximately 3100 employees. Of these, close to 2000 are employed outside Canada, including locally engaged staff. The Department's expenditures, as reflected in its 1968-69 estimates, total approximately \$85,041,000. These can be broken down as follows:

Administration, operation and maintenance	\$ 44,591,000
Capital	7,000,000
Assessment, grants and contributions	33,363,000
Statutory votes	87,000
	<hr/>
	\$ <u>85,041,000</u>

*Alice Springs Hill*

**DEPARTMENT OF EXTERNAL AFFAIRS**  
**PRESENT PLAN OF HEADQUARTERS ORGANIZATION**



### Present Plan of Organization

While this study is not concerned with the organizational structure of the Department from the point of view of its substantive or operational activities, it may help to put some of our subsequent conclusions and proposals in their proper perspective if we describe very briefly the overall plan of organization under which the Department is presently operating and the principal functions carried out by certain of its headquarters divisions. Existing organizational arrangements as far as the financial management of the Department is concerned, and the functions of those divisions that are primarily concerned with financial management matters, are described in subsequent chapters.

The present plan of organization of the Department is shown in Exhibit 1 facing this page. Under this plan, the Heads of all posts and missions (of whom there are approximately 85) are responsible, in the final analysis, to the Under-Secretary of State for External Affairs. In actual practice, however, most of their communications are directed to the headquarters division concerned. These divisions are grouped under four Assistant Under-Secretaries and a Deputy Under-Secretary - with the exception of three divisions in which the Head of the division reports directly to the Under-Secretary. Matters of major significance are dealt with by a Senior Committee consisting of the Under-Secretary, Deputy Under-Secretary, and Assistant Under-Secretaries.

Most headquarters divisions fall into one of the following three categories:

1. Area divisions, which are concerned with policy formulation and coordination of departmental operations as they relate to specific geographical areas.

2. Functional divisions, which are concerned with policy formulation and coordination of departmental operations as they relate to major functions or activities common to all geographical areas.

3. Administrative and operational support divisions, which provide advice and support services to posts and to other headquarters divisions and which, in some cases, carry out certain specialized functions of their own.

The function of each of these divisions is described very briefly in the paragraphs that follow.

The six geographical divisions - African and Middle Eastern, Commonwealth, European, Far Eastern, Latin American, and U.S.A. - have a responsibility for coordinating and advising other divisions and senior departmental personnel on various aspects of Canadian policy with respect to the countries and geographical areas under their jurisdiction.

The United Nations Division is responsible for providing advice on matters relating to Canadian participation in and policy towards the United Nations and its specialized agencies, and for coordinating the work of other divisions of the Department and other departments of government in this connection.

The Information Division is responsible for conveying to the people of other countries a knowledge and understanding of Canada and the Canadian people and for providing information on Canada's external policy and on the work of the Department of External Affairs.

The Cultural Affairs Division is responsible for the conduct of cultural relations between Canada and other countries, insofar as these contacts are maintained through intergovernmental channels, and for maintaining liaison with other interested agencies, both public and private, with a view to making Canada better known abroad through cultural and educational activities.

The Coordination Division is responsible for the coordination of federal-provincial participation in discussions of an international nature on matters under provincial jurisdiction.

The Francophone Division is responsible for advising other divisions and senior departmental personnel on various aspects of Canadian policy with respect to countries in which the French language and culture are predominant.

The Economic Division deals primarily with economic questions that have international implications for Canada, including treaties, agreements, problems relating to international transportation, communications and finance, and Canada's relations with a number of international agencies in the economic field.

The Protocol Division is concerned with matters of diplomatic protocol, precedence, privilege and immunity, working closely with diplomatic missions established in Canada, and making arrangements for recognition of representatives of other countries and for the extension of government hospitality to distinguished visitors from such countries.

The Legal Division is responsible for providing departmental personnel with advice on all aspects of international law, particularly as it covers treaties and agreements and Canadian properties and interests abroad, and for ensuring that the Government's activities in the international field are conducted in accordance with approved legal principles and practices.

The two Defence Liaison Divisions<sup>2 Divisions</sup> are concerned with Canada's international commitments and activities in the areas of defence and national security including its participation in NATO, NORAD, and various peace-keeping missions.

The Disarmament Division is concerned with the development of government policy in relation to the control by international agreement of military forces, weapons and expenditures.

The Consular Division is concerned with the conduct of consular activities such as safeguarding the rights and interests of Canadian citizens and companies abroad, and processing visa applications in countries in which Canadian immigration authorities are not represented.

The Passport Division is responsible for the issuing of passports to Canadian citizens and certificates of identity to non-Canadians legally landed and currently residing in Canada, who apply for them and who are eligible to receive them.

The Historical Division is responsible for carrying out historical research in the field of foreign affairs, for the selection and compilation of material in this field for publication, and for providing library, archival and press clipping services to the Department.

The Press and Liaison Division is concerned with the Department's relations with news media, including the holding of press conferences and the issuing of press releases, and for keeping personnel at the posts informed on Canadian domestic and foreign affairs developments.

The Inspection Service carries out a program of operational audits within the Department designed to assess the effectiveness of its present policies, practices and controls, both at headquarters and abroad.

The Personnel Branch, <sup>plus Division breakdown</sup> whose plan of organization is being reviewed by staff of the Public Service Commission, operates at present through three divisions as shown in Exhibit 1. These divisions are responsible for providing the normal range of personnel services to the Department plus the specialized services required in connection with the training and posting of staff under the Department's rotational system, and the administration of a complex system of pay and allowances for personnel serving abroad.

The Communications and Information Systems Branch <sup>Breakdown</sup> is also in the process of being reorganized, and consists of a Telecommunications Division and a Records Management Division at present, with an Information Systems Division to be added if further study indicates that such a division is needed to develop and keep up-to-date the Department's information handling techniques. In the meantime, the Branch is responsible for the operation of the Canadian diplomatic communication system, the provision of telephone service at headquarters and the posts, and for providing registry services to the Department. This latter function includes the opening and distributing of incoming mail, the classifying and filing of official correspondence, and the scheduling of records for retention or destruction.

*Breakdown*

The Finance and Administration Branch is responsible for providing advice and support services to the Department in a number of administrative areas. The functions of the Finance Division are discussed in detail later in our report. The Property Management Division is responsible for the acquisition of sites and for the purchase, construction or leasing of accommodation on behalf of the posts. The Materiel Management Division provides a general procurement and supply service to the Department plus a number of specialized services such as developing major schemes of interior decoration for new residences. The Central Services Division is responsible for the provision of accommodation and office services to the headquarters staff of the Department. The Organization and Methods Unit carries out studies and provides advice to departmental management on administrative problems referred to them.

TERMS OF REFERENCE

The terms of reference covering our study, as set out in a letter from the Under-Secretary of State for External Affairs dated September 27, 1967, are as follows:

Objective

To establish an effective system of responsibility accounting within the framework of the financial management function in accordance with Treasury Board policy as set out in Management Improvement Policy Statement MI-3-66 and in the Guide to Financial Management.

To meet this objective, a careful study of the following will be necessary:

- the planned departmental organization from the point of view of appropriateness for responsibility accounting practices;
- current procedures and practices for the preparation of the Department's annual program review and estimates;
- the present system of financial control in terms of its adequacy in an environment of responsibility accounting;
- present accounting systems in terms of their adequacy for cost control and decision making;
- existing financial reports in terms of their adequacy and timeliness for decision making;
- existing financial management organization in terms of structure, grade and numbers of personnel.

Recommendations will be required regarding the most appropriate alternatives for:

- an effective structure for responsibility accounting;
- the most appropriate responsibility and cost centres consistent with these alternatives;

- the nature and extent of financial authority to be delegated;
- improved procedures for the preparation of the annual program review and estimates, including the application of objective standards;
- improved financial controls, both expenditure and revenue, consistent with the proposed structure for responsibility accounting;
- improved accounting systems in support of the foregoing, including the code of accounts, accounting procedures and reports to ensure effective control of commitments and cash disbursements, and the application of working capital advances. Particular attention will be required regarding accounting systems and procedures to be followed by posts abroad;
- the most effective system of financial reports, including details of format, preparation procedures, and frequency for both revenues and expenditures;
- the most effective financial organization, including the number and level, as well as statements of duties and responsibilities for key positions.

Finally, recommendations will be required regarding the most appropriate plan and program for implementation of the proposals in the areas outlined above. Recommendations in each of the areas outlined should include recommendations on the most appropriate techniques (e.g. E.D.P.) as applicable.

METHOD OF CARRYING OUT THE SURVEY

The first phase of the survey was devoted to a general review of the way in which the Department is presently functioning and a thorough review of the Department's present system of financial management. During this phase we interviewed all heads of divisions and contacted all heads of posts to obtain their opinions on the present system and their suggestions for improving it. We also obtained information, through the embassies concerned, on the financial management system followed by a number of other governments in their foreign affairs operations, with particular emphasis on the degree of financial authority delegated to the heads of their missions abroad. In addition, we visited a number of posts in the United States and South America and obtained first hand opinions and impressions on their financial management procedures and problems.

After analyzing the information and opinions obtained in this manner, we examined a number of alternative organizational arrangements that could be used as a basis for developing a responsibility accounting structure for the Department. We discussed these with a selected group of senior departmental officials. Out of these discussions emerged a set of basic concepts and an organizational framework that appeared to offer a workable arrangement for developing the desired structure. These were incorporated into a discussion paper along with an illustration of how they would work if applied to the Department's Program Review and Estimates Procedures.

The discussion paper was circulated to the Senior Committee, heads of divisions and the Treasury Board. This resulted in general agreement that the proposed structure provided an acceptable basis for developing the suggested financial management system in further detail.

This impression was confirmed by a second round of visits to posts in Europe, the Middle East, and East Africa, during which time we discussed with the senior staff at the posts our basic concepts and explored with them the most effective method of applying them.

The next stage of the survey involved the development of the detailed responsibility accounting structure and financial controls needed to support the proposed system. This included the delineation of responsibility centres and the degree of authority to be delegated to them, as well as the system of budgetary control and cash control to be followed and the reporting structure to be used. Our suggestions with regard to these areas were incorporated into a second discussion paper which, as before, was circulated to the Senior Committee, a selected number of heads of divisions, and the Treasury Board.

Once again, no major objections were raised and we proceeded to the final stage of the survey, in which we developed the accounting systems, the detailed organizational arrangements, and a plan for implementing the proposed system, if it is approved.

The completed report in final draft stage, i.e. subject only to final editing, was then distributed to the Assistant Under-Secretary, Administration and a selected group of senior departmental officials as well as representatives of the Treasury Board and the Comptroller of the Treasury. Discussions were held with these individuals, as a result of which

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## FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT

With the Federal Government's adoption of the Glassco Commission's recommendations relating to the use of program budgeting, the way was paved for the introduction of major improvements in the planning and control of departmental operations. While subsequent studies have demonstrated the validity and usefulness of this concept in those departments where the management of resources is a major management function, they have also brought to light the fact that there are certain types of government operations where the concepts have only limited applicability.

The Department of External Affairs falls in this latter category, and it is the purpose of this section of our report to describe briefly the philosophy underlying the twin concepts of program budgeting and responsibility accounting and to outline the difficulties involved in applying them to a department like External Affairs. We then describe how, in spite of these difficulties, the system we are proposing, can go a good part of the way in meeting the needs of both the Department and the Treasury Board for an improved system of financial management in the Department.

### Program Budgeting

As pointed out by the Glassco Commission, the form in which estimates were prepared in all government departments at the time of its survey, i.e. by objects of expenditure, did not provide to departmental management, Treasury Board or Parliament a satisfactory method of evaluating the purposes for which funds were required or

how effectively they were being used. Nor did it lend itself to the assigning of responsibility for the planning and control of departmental revenues and expenditures to specific members of departmental management.

To overcome these weaknesses, the Commission recommended and the Government adopted a system of financial management known as program budgeting. Probably the easiest way to explain this system is to describe the purposes that it is intended to serve. Some of the more important of these are as follows:

- (a) To show the nature of the programs being carried out by each department of government and the activities making up each program so that those in authority, by knowing the purposes for which funds are being requested, will be in a position to establish priorities and decide on the most effective use of such funds.
- (b) To bring together as many of the costs associated with a given program or activity as is practicable, to assist those in authority to weigh benefits against costs, and to evaluate alternative methods of achieving a given objective.
- (c) To assess the effect of changes in demands for services on the manpower and other resources needed to support a given program or activity, thereby facilitating the planning and control of such resources.
- (d) To provide a means of holding specific individuals accountable for the estimating and control of revenues and expenditures associated with a particular program or activity.

A program, as defined in the Financial Management Guide issued by the Treasury Board, is "a major departmental function designed to achieve specified objectives that have been authorized by Parliament". Another way to define a program would be to consider it as a group of related activities having a common set of objectives.

It will be readily apparent that a program is not easily definable in terms that can be readily applied to all government departments. In most departments that have introduced program budgeting, programs have been defined in terms of the activities carried out by major branches of the department, such as Air Services and Marine Services in the Department of Transport, Treatment Services and Veterans Welfare Services in the Department of Veterans Affairs, and so on. Thus it can be seen that, in practice, programs in these departments have been defined in broad terms, frequently as the vehicle for carrying out a major piece of legislation.

As noted previously, the primary benefit to be gained from the introduction of program budgeting is that it enables (and tends to force) departmental management to plan and control a department's operations and its resource requirements in terms of the purpose for which such resources are required rather than in terms of objects of expenditure, such as salaries and supplies. This, in turn, enables departmental management and Treasury Board to assess alternative uses and priorities for available resources in relation to the benefits anticipated as against the funds required - the "cost-benefit relationship".

As an aid in determining the resources required to carry out a given activity, the program budgeting system envisages the use of

"performance indicators". These are statistical measures of activity or workload that can be converted into resources (manpower and supporting facilities) needed to meet a given workload. Thus, in the case of External Affairs, one example of a performance indicator (for the Passport Division) would be the number of passports issued. Once this figure has been converted into the number of manhours, passport blanks, postage, etc. needed to supply a passport to an approved applicant, it can be used both for projecting future resource requirements and as a measure of the resources that should have been used to process the number of passports actually issued.

In using performance indicators of this type, it is possible to introduce varying degrees of sophistication into the projection of future demand for services. Thus, in the example given above, a projection of the number of passports likely to be issued over the next five years could range from a simple percentage increase, based on the average increase experienced over the last five years, to complex assessments based on projected population and income levels, travel trends, and the effect of such influences as the probable economic condition of the country, the introduction of jumbo jets, the number of immigrants likely to be returning for visits to their respective homelands, etc. etc.

It is possible to conclude, even from this very brief discussion of program budgeting, that this approach to budgetary control is most effective for those types of government operations where the objectives of a given program can be clearly spelled out, where the benefits and costs of alternative methods of achieving these objectives

can be identified, and where statistical indicators are available as a basis both for projecting the probable workload or demand for services arising out of each activity and for measuring the actual services provided. Unfortunately, this is not the case in the Department of External Affairs. However, before discussing this problem in greater detail, we would like to complete the description of program budgeting by outlining the organizational framework within which this system is normally applied.

#### Responsibility Accounting

As stated previously, one of the advantages associated with program budgeting is that it enables departmental management to designate specific individuals in the department as being responsible for determining the resources required to carry out given activities or programs, and for managing the resources that are actually allocated to them.

To achieve this benefit of program budgeting, it is necessary to delegate sufficient authority to these designated individuals for them to make the decisions required of them by their management function. If this is not done, it becomes very difficult to hold such individuals accountable for achieving a desired result or living within an approved budget. Thus, it is necessary in using this approach to spell out as precisely as possible the exact responsibilities and authorities to be delegated to each of the individuals concerned.

The organizational framework within which this delegation takes place is known as a responsibility accounting structure. While such a structure is an integral part of the program budgeting system,

it can also be used, and obviously is used, in any organization where senior management delegates the authority to do a given job to a specific individual and provides him with the manpower and other resources (in the form of an approved budget) to do the job.

Thus, responsibility accounting is more of an organizational concept, to be used in conjunction with some form of budgetary control, than a specific technique for improving management effectiveness. It is the vehicle by which departmental management can share its workload and hold individuals accountable for carrying out given tasks. When formally constituted, a responsibility accounting structure consists of a set of responsibility centres, with the head of each centre being delegated certain specific responsibilities and authorities.

In a government department, responsibility centres are normally recognized organizational entities such as a branch, division or section. The head of an organizational unit, such as a branch, which consists of a number of divisions, some or all of which are responsibility centres, is also considered the head of a responsibility centre (the branch). However, to avoid confusion, we refer in this report to such collections of responsibility centres as "responsibility groups".

#### Applicability to the Department of External Affairs

In assessing the applicability of the program budgeting concept to a department like External Affairs, one of the first questions that should be asked is whether an analytical management tool of this sort is the most appropriate one to use in the planning and control of an operation in which cost-benefit relationships and indicators of effectiveness

are almost impossible to establish. How important are budgetary considerations in reaching a decision on whether to recognize Communist China, join the Organization of American States, or provide military assistance to a foreign power?

Similarly, after a mission has been established, is it possible to use quantitative measures to evaluate the effectiveness of its senior staff - or the need for greater or lesser staff? Granted these judgments have to be made. The only question we are raising is whether program budgeting helps in this process. Is there a danger that if criteria were found that could be expressed in quantitative terms, there might be a tendency in arriving at a difficult decision to rely too heavily on such criteria at the expense of more important but less tangible considerations?

We do not believe that there are any simple answers to these questions. On the one hand, they raise a reasonable doubt concerning the wisdom of attempting to apply this technique in its most sophisticated form to an operation like External Affairs. On the other hand, there can be little doubt concerning the value of the organized and disciplined approach that the use of program budgeting brings to the decision making process and the establishment of priorities between alternative uses of resources.

#### Definition of Programs

If we accept the premise that program budgeting, even if in a somewhat modified or rudimentary form, can be helpful in the planning and control of the Department's operations, the next question that arises concerns the most meaningful definition of programs and activities for this purpose.

In carrying out its initial Program Review in 1966, the Department came to the conclusion that its operations constituted one basic program which it defined as "The Protection and Promotion of Canadian Interests in Other Countries and International Organizations". A number of activities or components of the program were also defined at that time. These were reviewed and refined for the 1967 Program Review, and the following activities were established as the principal components of the Department's program:

1. Political and Regional Affairs
2. Economic Affairs
3. External Aid
4. Politico-Military Affairs
5. Commercial Affairs
6. Cultural Affairs
7. Public Information
8. Consular Activities
9. Immigration
10. Security and Intelligence
11. Direction and Administrative Support

For purposes of the 1968 Program Review, the concept of one program has been maintained, but the activities making up the program have been grouped into three principal components (exclusive of capital expenditures). These are:

1. Direction and Administrative Support
2. Policy Formulation and Coordination
3. Foreign Representation

We were not asked in our terms of reference to assess the validity or the usefulness of the above groupings as a basis for planning and controlling the Department's operations, or to examine the possibility of developing a better definition and grouping of activities.

Thus we have not considered this matter in any depth. It was impossible however, not to form some impressions in this area during the course of our survey, and these are passed on in the hope that they may make some contribution to the resolving of a difficult problem.

We believe there is considerable merit in the approach that the Department has adopted wherein its operations are considered as one basic program. There is certainly a considerable amount of precedence for doing so, since many other large segments of the government's operations are presently considered as one program, including Immigration, Trade and Commerce, Welfare Services, Forestry, and Justice, to name but a few. However, we are led to this conclusion not so much by the precedents that have been established, or by the degree to which the Department's operations might or might not fit the accepted definition of a program, as by the lack of feasible alternatives.

The two principal alternatives that immediately come to mind are the possibility that some or all of the components listed previously could be considered as full-fledged programs in themselves, or that each country to which our representatives are accredited and each multilateral mission could be considered as a separate program. Unfortunately, neither of these alternatives offers a more rational basis for applying program budgeting than the present arrangement.

Let us look first at the feasibility of considering a component such as Cultural Affairs as a "program". The possibility of defining a set of objectives for such a program that would be distinguishable from the objectives of other components such as

Information Services or Economic Affairs, or even from the broader objectives of the Department as a whole, would be rather remote. It would also require an inordinate amount of time and effort to segregate the cost of these programs in the field, where post personnel may be spending time on any or all of them and where some visual aids, such as films or travelling exhibits, may be used in several countries and for several purposes.

These same factors of shared responsibility and shared purpose would make it difficult, if not impossible, to pinpoint accountability for the effectiveness of programs developed along these lines. The difficulty of evaluating the impact of such programs, added to the difficulty of segregating their costs, would also rule out the possibility of developing the cost-benefit relationships that form an integral part of the program budgeting system.

The possibility of considering each country to which the Department's representatives are accredited, or at least in which it has a mission, as a program is a much more intriguing one. There is little doubt that the Department's objectives vary from country to country. In addition, the effectiveness of the various methods available to it of achieving these objectives, such as cultural exchanges, economic aid or military assistance, vary from country to country.

If countries were defined as programs, the Department could then plan the use of its resources and determine its priorities in terms of which particular combination of activities in each country appeared to offer the most promise of achieving its objectives in that

country and how important the achievement of such objectives were to Canada as compared to the achievement of its objectives in other countries. This assumes, of course, a basic staff complement in each post capable of carrying out the representational and consular activities required of that post. In theory, such an approach would appear to be quite logical. In practice, it would encounter many obstacles.

In the first place, the program budgeting concept requires that program managers be involved in all major decisions affecting their programs and their budgets. Similarly, the concept requires that such managers be held accountable for the degree to which the objectives of their respective programs are achieved, as measured in terms of criteria acceptable to both themselves and their superiors.

Neither of these prerequisites is feasible in the Department of External Affairs. Many potential instruments of foreign policy, such as external aid, immigration, and external trade promotion, are not under the control of the Department, let alone its Heads of Post. While a number of mechanisms are employed to coordinate these activities, it would not be reasonable to hold a Head of Post accountable for the effect they may have on Canada's relations with a given country and thus the achievement of the Department's objectives with respect to that country. Similarly, all major decisions on foreign policy are made in Ottawa, and these can have a major impact on Canada's relations with certain countries, for which a Head of Post could not reasonably be held accountable.

Another practical obstacle to equating countries with programs concerns the sheer number of programs that would result. If the normal practice were followed of funds being appropriated by Parliament

through one or more votes for each program, financial control in the Department would become chaotic. Parliamentary approval would be required each time funds had to be transferred between any one of close to a hundred programs.

While the grouping of posts into more broadly defined programs, such as a "Middle East Program" or a "Francophone Program" (in which certain problems and certain objectives were common to all of the posts) would reduce the number of programs involved, it would not overcome the other difficulties inherent in the use of this approach. In addition, it would tend to obscure the fact that at least some of the Department's objectives, and the most effective method of achieving them, can vary significantly - even between countries within one geographical area.

Still another obstacle to the use of program budgeting in the Department in general, and to the designation of countries as programs in particular, is related to the rotational system that the Department has found to be a very necessary part of its staffing arrangements. Not only do Heads of Post have very little control over the calibre of staff assigned to their posts under this system, but, because they themselves rotate every two to three years, many of them are likely to find themselves faced with the necessity of carrying out programs and living within budgets prepared by their predecessors.

Another problem created by the rotational system, which would be accentuated by the use of countries as programs, concerns the difficulty of budgeting for and controlling the salaries and allowances of "Canada based" staff at the posts. Many postings bear little relationship to the approved establishment at a post. In addition, the grade of the individual being posted plus the size and age of his family can have

a considerable impact on the allowance costs of the post. None of these factors is under the control of a Head of Post and it would be very difficult to hold him accountable for the salary and allowance *allowance* costs of his post.

#### Use of Program Budgeting in a Modified Form

If, for the reasons just outlined, it is not possible to apply program budgeting in its customary form to the Department of External Affairs, what is the alternative? We believe the alternative is to use the concept in a modified form - with less emphasis on quantitative analytical techniques, such as performance indicators and cost-benefit relationships, and more reliance on the judgment of experienced departmental officers in deciding on the most effective deployment of departmental resources.

We believe the Program Review procedures incorporated into the financial management system proposed in this report would provide an effective vehicle for bringing the knowledge of such officers to bear on the problem of establishing objectives, evaluating alternative methods of achieving these objectives, determining priorities, and assessing the effectiveness of present policies and practices. At the same time, the results of these deliberations, as expressed in Program Review submissions, can never give the same appearance of mathematical preciseness or statistical justification as those submitted by a number of other government departments.

This places the Department of External Affairs at a disadvantage in competing with other departments for the resources needed to carry out its program. It also greatly increases the difficulties faced by Treasury Board and Parliament in finding a rational basis

on which to establish priorities between programs and on which to monitor the actual spending of funds.

We suggest that it is unreasonable to expect the Treasury Board to carry out this sort of role with respect to a department like External Affairs. We believe it would be more reasonable to ask the Board to define the proportion of total government expenditures that should be devoted to the foreign affairs sector and leave the actual deployment of such resources up to the Department, always subject, of course, to government policy and directives in this area.

At the same time, since most of these resources (other than grants, assessments, etc.) are related to the use of departmental manpower and, in the case of posts, to the comfort and convenience of such manpower, we believe every effort should be made to develop guidelines, acceptable to the Treasury Board, on what constitutes a reasonable standard in these areas. This would include such matters as accommodation, allowances, personal staff, furnishings, etc. While standards have been developed for a number of these areas in the past, we believe they have been applied too rigidly without enough consideration being given to differences in the circumstances and the needs of individual posts.

Standards should also be developed, to the maximum extent practicable, covering the manpower required at different size posts. These would obviously have to be applied very carefully and with full knowledge of local conditions and local activities. However, if a basic complement of staff could be established for posts in different size countries, the onus would then be on the Head of Post to justify the staff he needs

over and above this basic complement. Priorities could then be established on the basis of the degree of importance attached to the marginal staff needs of each post.

If a systematic approach of this type were brought to bear on the problem of assessing needs and establishing priorities within the Department, and such an approach were coupled with an appropriate responsibility accounting structure along the lines of the one proposed in our report, we believe the Department would have a system of financial management in keeping with its needs.

#### Meaning of Accountability

Before describing in the remaining sections of this report how such a system would work, we would like to stress the need for recognizing that the introduction of any new concept involving the decentralization of authority makes many demands on the organization concerned. If these demands are not adequately met, the problems created by the use of this approach can more than offset the benefits.

Some of the more important of these demands are as follows:

- (a) There must be a willingness on the part of top management to share their responsibilities with subordinates and to give them the freedom they need to do their respective jobs - without hemming them in with so many restrictions that it becomes almost impossible for them to make a decision of any consequence without getting prior approval from someone else.

- (b) At the same time, control mechanisms must exist that will enable top management to know if subordinates are deviating significantly from approved plans or are seriously misusing the authority given to them.
- (c) There must be a willingness on the part of heads of responsibility centres to accept the greater responsibility and authority inherent in this approach as well as the greater accountability that goes with it.
- (d) There must be some method of making accountability mean something - that will not only provide more than a token deterrent to the head of a responsibility centre from misusing his authority, but will also provide a real incentive for him to devote the thought and time needed to exercise this authority in a responsible manner.

A certain amount of skepticism was expressed to us in the course of our survey concerning how much meaning can be given to accountability in a foreign service type of operation, where measures of effectiveness are almost non-existent and where a foreign service officer's career is less likely to be affected by his ability to manage the resources allocated to him than by his abilities in a number of other much more sensitive areas.

We believe this is a very real problem. We also believe it is a problem that departmental management must be prepared to recognize and deal with if the system proposed in this report is going to result in any real improvement in financial management within the Department.

Short of any real disciplinary action, there are really only two effective methods of impressing upon managers the fact that accountability means something. One is to convince them that their ability as a manager of resources has a definite and important bearing on their future advancement. The other is to withdraw authority from them if they show themselves to be incapable of exercising it properly.

Since an individual's abilities in many areas must be weighed in assessing his capacity for advancement, we would not want to suggest that his ability to manage resources should be given any greater weight than its importance in the Department of External Affairs deserves. However, we suggest that it should be a factor and that it should be made clear to the individuals concerned that it is a factor.

On the other hand, withdrawal of authority to approve expenditures from a Head of Post (or Division) would not have a major effect on the ability of the staff concerned to carry out their responsibilities. It would, however, serve as enough of an inconvenience to provide an incentive for Heads of Post to take a personal interest in ensuring that post funds are not misused.

We have suggested in our report that greater expenditure authority should be delegated to heads of responsibility centres in stages. In the case of posts, the first stage would be freedom to spend up to the limit provided within each standard object of expenditure but not to transfer funds between standard objects. The ultimate stage would provide freedom to transfer funds freely within an operating budget and a capital budget for each post - always subject, of course, to the need to explain and justify to higher authority why it was

necessary to depart from the pattern of spending originally approved in the estimates.

We suggest that this same process could be reversed where, in the opinion of the Senior Committee, a head of a post, or other responsibility centre reporting at the level of Assistant Under-Secretary, has demonstrated that he is incapable of properly exercising the authority given to him or of adhering to the regulations and guidelines governing departmental spending.

It should be kept in mind in this connection that one of the costs or calculated risks associated with the decentralization of authority is the fact that heads of responsibility centres are going to make mistakes - particularly during the early stages of the process. Most of these will be errors of judgment. Such mistakes should be condoned - as long as they are not repeated and are not an obvious violation of a regulation or departmental directive.

Where the latter occurs, we believe the Department should have no hesitation in withdrawing authority from the head of the responsibility centre to the extent required to bring the situation under control again. In the final analysis, it is the Secretary of State for External Affairs and his Under-Secretary who are accountable for the way in which departmental funds are spent. They must be satisfied that these expenditures are being made in accordance with the purposes for which the funds were appropriated by Parliament and in accordance with government policy relating to the expenditure of funds.

FINANCIAL MANAGEMENT IN THE DEPARTMENT  
OF EXTERNAL AFFAIRS

As a necessary prerequisite to determining the scope for improving financial management in the Department of External Affairs in general, and to developing a responsibility structure for the Department in particular, we carried out a comprehensive review of the policies and procedures presently followed by the Department in managing its financial affairs. We were fortunate in this respect in having on the survey team two of the key financial management personnel in the Department.

In this section of our report we describe in broad terms the present system of financial management in the Department. Various aspects of the system are discussed in greater detail in later sections of the report. We then point out the way in which the present system does not meet the financial management needs of the Department.

Later in the section we discuss the basic factors that need to be considered in designing a system that will meet the Department's needs, and that will take into account some of the unusual operating characteristics of the Department. Finally, we describe the main features of the system we are proposing, to provide a birdseye view of the plan and to give some perspective to the detailed descriptions that ensue in later sections on various aspects of the system.

The Present System of Financial Management

Financial management in departments of the Federal Government follows a cycle which is imposed by the fact that their funds are appropriated annually by Parliament on the basis of the departmental Estimates. The submission of the Estimates to Parliament is the exclusive right of the Executive which has imposed a precondition on departments that a long range plan be first submitted and approved so that the Estimates can be examined in context. The Estimates approval having fixed the limit of its resources, the department enters the fiscal year with the requirement to control its funds so as to secure maximum effectiveness in their deployment.

We describe the handling by the Department of each phase in this cycle under the headings:

Program Review

Annual Estimates

Expenditure Control

PROGRAM REVIEW

The formal vehicle for long range resource planning is the Program Review. It consists of a five year plan, revised annually, containing three main elements; a narrative description of activities planned to achieve defined objectives over the planning period, a forecast of manpower requirements to carry out these activities, and a forecast of money requirements. It is submitted to Treasury Board who, following review, grant approval in principle to the plan as submitted or as modified and also establish a target figure

within which the Department is to prepare the Estimates for the next fiscal year (year one of the plan).

The Department's first Program Review submission in 1966 was largely the work of the administrative support divisions with some input from the substantive divisions at Headquarters. For 1967, a call for submissions was made to the heads of all posts and divisions. These submissions, consisting of the three major elements described previously, were received by the Financial Management Adviser for consolidation into a departmental submission.

Heads of Area Divisions were asked to assist in the consolidation process by incorporating the post submissions into brief papers for each geographic region. In this way, a general statement of objectives and plans for each area was developed, but most divisions found themselves unable to do anything more with the manpower and money requests from the posts than simply add them together.

When the figures thus generated were consolidated into a five year projection for the Department, it was clear to the administrative officials and to senior management that the personnel expansion envisaged was beyond the capacity of the Department for either recruitment or training. Primarily on this criterion, the establishment projection was reduced by some thirty percent and the financial forecasts reduced proportionately. As the lead time for the Program Review submission had expired, this exercise was carried out almost entirely by senior administrative officials and reviewed, to the extent possible, by senior management before going to Treasury Board.

Eventually, Treasury Board approved an establishment increase for the first year, of approximately 20% of the one requested, and this departmental gross figure was communicated to the heads of administrative support divisions as a basis for their operational planning and preparation of estimates.

#### ANNUAL ESTIMATES

The preparation of the estimates is initiated by a memorandum to the heads of all posts and divisions requesting the submission of estimates in specified form by a given deadline date. For most divisions the only estimate required is for travel by divisional personnel and this forecast is quickly forwarded to the Finance Division. In the "spending divisions"<sup>(1)</sup> however, estimates cannot be completed until the submissions are received from the posts.

The estimates are completed at the post by the senior officer responsible for administration. He prepares worksheets that are structured according to the kinds of expenditure within the jurisdiction of each "spending division", and within division, according to standard objects of expenditure.

His first step is to carry out an analysis of all expenditures appearing in the post account for the preceding year, which he assigns by standard object to "spending division". He then proceeds to project the needs for the coming year in each category by:

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(1) On the substantive side - Cultural, Historical, and Information Divisions.

On the administrative support side - Administrative Services, Communications, Finance, Personnel Operations, and Personnel Services Divisions and what was at that time the Supplies and Property Division.

- (a) consulting a "want list" if he has one
- (b) assessing the needs as he knows them
- (c) informal consultations with other officers and the Head of Post
- (d) applying some growth factor to prior year totals where no other forecasting basis is available.

When received in Finance Division, the post worksheets are divided among the appropriate "spending divisions", each of which carries out an independent review of the post proposals in those expense categories with which the division is concerned. This review usually results in significant modifications. In some cases, these are cutbacks, in others the correction of oversights in the post submission. In carrying out this review, the "spending division" consults occasionally with officials in other divisions and with senior management in cases where there is uncertainty as to probable developments affecting the post. The resulting figures are consolidated and largely lose their post identity in the estimates of the division itself.

"Spending division" estimates are consolidated by Finance Division into a departmental Estimates submission which is reviewed by senior management before being forwarded to Treasury Board.

The total Estimates may be cut back in the course of their review by senior management or in their consideration by Treasury Board before they are found acceptable for presentation in the "blue book". The effect of any such cutback is distributed among the "spending divisions" by senior management in consultation with the senior financial officials after which each such division is

notified of its allotted budget for the coming year in each standard object of expenditure.

#### EXPENDITURE CONTROL

Once the fiscal year has begun, the financial management function becomes one of ensuring that the departmental appropriation is used for the purposes for which the funds were voted, and that the total of the funds provided is not overspent. Responsibility for this function is shared by program and administrative personnel.

In practical terms therefore, day to day financial management in the Department is a continuous compromise between the need to delegate expenditure authority and the need to control disbursements. The nature of the compromise comes most clearly into focus on those recurring occasions when funds must be found for an unforeseen purpose, or to meet escalating costs on a current project. Where should the funds be taken from? How well founded are the justifications? Above all, who should make the decision?

The requirements of expenditure control and the procedures that are presently being followed to meet these requirements are described in the paragraphs that follow.

#### Control by Parliament

Funds are appropriated by Parliament for the Department, for other than statutory purposes, in three votes as follows:

Vote 1 - Administration, Operations and Maintenance

Vote 10 - Capital Expenditures

Vote 15 - Grants, Assessments, and Contributions

The Department can use funds only for the purposes of the vote and cannot transfer, or obtain authority to transfer, funds between votes. The only means of increasing the amount of money in a vote is through the submission of supplementary estimates to Parliament.

#### Control by Treasury Board

Parliament has delegated to Treasury Board the authority to exercise a further control over departmental spending in the form of subdivisions within each vote called primary allotments. This "allotment control" is exercised by the Comptroller of the Treasury on behalf of Treasury Board and consists of ensuring that the Department does not overspend the amount of each allotment. The Department can secure transfers between allotments only through a submission to Treasury Board for each such transfer required.

#### Control by the Department

The <sup>MINISTER</sup>~~Deputy Head~~ of the Department, in turn, is authorized under the Financial Administration Act to approve disbursements of funds against the primary allotments. The Deputy Head may delegate this authority, in whole or in part, to specified officers and employees of the Department at his discretion. The requirement that allotments not be overspent without Treasury Board approval means that, in practice the delegation of spending authority to departmental employees must be accompanied by mechanisms to prevent the overspending of individual allotments.

Up to this point the system of control is statutory, and would remain unchanged under the proposals advanced in this report.

The existing pattern of delegation in the Department derives essentially from the way in which votes are broken down into primary allotments - based on standard objects of expenditure. Thus each vote is subdivided into allotments for objects such as salaries, rentals, repair and upkeep, etc. in each of which total departmental spending is subject to a fixed ceiling. The statutory responsibility of the Department not to overspend its various allotments devolves largely upon its senior financial officials. These officials however have little or no involvement in the activities which require the actual disbursements.

Most spending is done by the operating units of the Department, posts and divisions, who have responsibilities that cut vertically across the whole standard object structure. In their daily routine they make expenditures in several if not most standard objects, and thus against several of the primary allotments. When this kind of "vertical" spending behaviour is viewed against the allotment control structure by "horizontal" standard objects, a matrix of responsibilities is set up which almost defies any systematic delegation of authority. Any measure which frees the operating units to expend funds on their own initiative weakens the control of financial officials over standard object allotments. At complete cross purposes, the mechanisms introduced for allotment control purposes work to impede and frustrate the operating personnel.

Under these circumstances, a number of forms of delegation have evolved which are used singly and in combination to

cover a variety of disbursement situations. These involve the use of "financial encumbrances" to earmark funds that are being set aside for specific purposes and "expenditure authorities" that are used by a "spending division" to authorize posts or other divisions to spend funds out of the allotment for which the spending division is responsible - up to a designated amount and for a designated purpose. The use of these control mechanisms is described more fully in the section on Financial Controls.

To provide the information they require to make disbursements and authorize others to make disbursements against allotments, the heads of the "spending divisions" are provided with monthly reports of actual expenditures against each encumbrance and each allotment. They supplement these with commitment records maintained in the division itself.

Of the "spending divisions" which play the central role in this structure, only three, Cultural, Historical and Information, are substantive or program divisions and their spending is strictly in support of their specific divisional programs. The management of all other resources in the Department is, for practical purposes, centralized in the administrative support divisions.

To ensure that program considerations are not lost sight of in the workings of the administrative and control machinery, three practices are followed in the Department, one of them official, the others unofficial.

1. Foreign Service Officers are regularly rotated to positions at various levels in the administrative divisions.

2. There is a tradition of widespread informal consultation between program and administrative personnel at the Head of Division level and below, which helps to maintain an awareness throughout the Department of changing priorities and developing plans.
3. Their common career orientation and the rotational posting system have encouraged the development of a broad network of personal relationships among foreign service officers. When rigidities in the financial administration system seriously threaten program plans, the officer whose plans are so threatened, even if situated in a remote location, is usually able to call on an associate in Headquarters to act as advocate in presenting his case to higher authority.

#### Assessment of the Present System

Individual elements of the system will be appraised in detail in subsequent sections of this report. Our comments here concern a number of major managerial implications of the system and particularly its adequacy in an atmosphere of program budgeting and responsibility accounting.

#### FORMULATION OF PLANS AND OBJECTIVES

Sound resource planning must be based on defined program objectives and good activity plans. For a post abroad, the formulation of such objectives and plans requires contributions from the Head of Post, the area division, several functional divisions, and the administrative support divisions.

There has been a notable absence in this Department, however, of any formal mechanism for coordinating these contributions. There are consultations and ad hoc meetings, and communications are frequently routed to several interested parties. In general however, the "rounded view" of a post operation is available only to its Head, and in the broadest sense, to the Under-Secretary. It is largely left to the Head of Post, therefore, to reconcile the uncoordinated and, sometimes, conflicting demands placed on him and to make a plan of action. Furthermore, it is left to him to construct a coherent case for resource allocations for which he must negotiate with still other divisions.

In our visits to posts, we received a number of comments on the difficulty of planning resource requirements in the absence of agreed objectives and priorities and with little feedback from Headquarters on the adequacy or desirability of post activities. Thus there would appear to be a definite need for a formal procedure whereby, at regular intervals, all interested parties submitted to the discipline of re-ex<sup>x</sup>amining objectives and reviewing activity plans as they relate to each post.

#### MANPOWER ALLOCATION

Even a cursory examination of the Estimates reveals that a high proportion of the Departments' expenditures is either in staff costs or in costs, such as allowances and accommodation, that are directly related to the use of manpower. Clearly this is a Department in which manpower utilization and allocation are the key elements of resource management.

Some two-thirds of the staff complement are on duty at posts abroad. But just as there is no formal focus for the planning function, there is no one location in the Headquarters organization where the total workload demands on a post can be appraised. In visiting posts, moreover, we found significant workload factors which were largely unconnected with Headquarters, being related to other Government departments, to provincial governments and to industry.

In this situation, we suggest, systematic manpower allocation according to conscious priorities is impossible unless some well-defined procedure is adopted for the purpose.

We recognize that the review of establishments receives systematic consideration but, due to the high vacancy rate in many classifications, the approval of a position rarely constitutes an allocation. Postings (i.e. decisions to fill positions) would seem to be the relevant allocations. This is left largely to the Personnel Divisions so that, even allowing for the informal consultation and the presence of foreign service officers in Personnel, we must conclude that the program divisions have much less participation in priority-setting and manpower allocations than the importance of these decisions would seem to warrant.

#### DELEGATION OF AUTHORITY

There is very limited delegation of financial authority under the present system. This may not seriously affect the performance of the operating units, but it nevertheless imposes a toll on everyone concerned. The operating managers are frequently frustrated by a multitude of restraints on their spending authority, restraints which are largely inconsistent with the ongoing requirements of the manager's

task. Because they are imposed by different divisions and perhaps for different reasons, these restraints may not even appear consistent with each other.

#### REPORTING SYSTEMS

We found, in interviewing various departmental officials, that the financial reports received at present do not provide adequate information for management purposes. This inadequacy relates both to the reporting structure and to the accuracy and timeliness of the data included in the reports. This has not, to our knowledge, created any serious problems for the Department. However, we believe this has been due more to good fortune and the ability of the senior financial officials concerned, than to any intrinsic value in the system itself. It should be kept in mind, of course, that the present system was designed primarily for cash control purposes and it may have served reasonably well in that capacity. It is not adequate, however, as a vehicle for meeting the information needs of a financial management system based on program budgeting and responsibility accounting.

#### USE OF STAFF EXPERTISE

An outgrowth of the present system, which has important managerial implications, is that it involves in financial administration many people who have neither financial nor program responsibilities. Where this occurs, it constitutes inefficient utilization of the particular expertise which these persons or groups possess.

While this argument could be advanced with respect to a number of sections in the administrative support divisions, it is most

readily seen in the case of Materiel Management Division. Here we found for example that architectural and decorating experts become unavoidably involved in discussions of whether this or that post should renovate, or whether there is enough money for both. We found purchasing agents deeply concerned with the justification of expenditures they were asked to make for posts, and having to make judgments regarding priorities when there were competing demands for the funds.

Such involvement undoubtedly creates demands on their time that hampers such experts in the fulfilment of their proper duties. Thus we were not surprised to hear that the Department is behind schedule in the revision of manuals, the development of repair and replacement guidelines and preventive maintenance programs, research on alternative suppliers, product value analysis and the like.

The Department incurs substantial costs, direct and indirect, in allowing this situation to continue. It is largely unavoidable however under the present system of financial management.

#### CONCLUSION

Thus, there is a real need for a new or improved system of financial management in the Department that would formalize the formulation of plans and objectives, provide a focus for manpower planning, facilitate the delegation of authority and enable more appropriate use to be made of staff experts in the Department.

Basic Considerations and Organizational Alternatives

Before attempting to weigh the relative advantages and disadvantages of various organizational arrangements that could be used as a basis for developing a responsibility structure within the Department, we gave some thought to the basic considerations that needed to be taken into account in designing a structure that would give adequate recognition to certain unusual aspects of the Department's operations. Some of the more important of these considerations are as follows:

1. The individual posts are likely to remain the focal points for the planning and control of departmental operations, subject to an overlay of policy formulation and co-ordination from headquarter's divisions. Thus the Heads of Post need to be actively involved in these activities, and should be delegated the maximum amount of responsibility and authority consistent with the nature of the Department's operations.
2. The most significant element of resource management in the Department is the deployment of the manpower available to it. Therefore, <sup>manpower etc</sup> foreign service <sup>officers</sup> personnel at all levels should be involved in determining the most appropriate use of this resource.
3. Most other resources, excluding funds for grants, assessments and contributions, are related to the support of substantive personnel and follow closely the allocation of such personnel. Consequently, foreign service officers with program responsibilities do not need to be intimately involved in allocating or controlling such resources.

4. At present, posts lack control over the administrative resources they need, and occasionally experience inordinate delays in having their requests for such resources filled. While these factors are not likely to have a major impact on the effectiveness with which the staff of the post can perform their functions, they can be a major source of irritation, frustration and administrative inefficiency. They can also have a detrimental effect on the morale of the staff that is out of all proportion to the amount of money involved. There needs to be a significant relaxation of present restrictions in this area and the posts need to have a much greater say than they have at present in the determination and control of the administrative resources required to support their operations.
5. There is a pressing need for better co-ordination of various headquarters administrative activities as they affect the posts, and particularly as they relate to staff postings. There is also a need for someone to expedite communications and action on administrative matters between posts and headquarters.

With these considerations in mind, we assessed several alternative organizational arrangements, or variations of basic arrangements on which a responsibility accounting structure for the Department could be based. Each of these alternatives and their potential advantages and disadvantages are discussed below.

An improved version of the present arrangement with its highly centralized financial management structure

This arrangement would have the advantage of being highly flexible, when it came to the need for reallocating funds, providing very tight

control over the potential misuse of funds, requiring a minimum number of personnel with financial management skills, and requiring a minimum involvement in administrative matters on the part of program personnel at headquarters, although not necessarily at the post.

Its major disadvantages would continue to be the lack of involvement of substantive personnel in resource allocation decisions, the high degree of financial control exercised by administrative specialists - with the resulting tendency for them to become control rather than service-oriented, the necessity for posts to deal with a number of headquarters divisions on administrative matters - with a significant lack of co-ordination and follow-up on such matters, and the fact that classification and control of expenditures would still be carried out by personnel far removed from the scene of the action and thus the point at which such decisions should be made.

An arrangement which would give the area divisions (European, Commonwealth, etc.) a central role in financial management.

This would result in a high degree of integration between policy and financial management decisions, would actively involve senior foreign service personnel in such decisions and would provide a focal point for dealing with the posts on administrative matters. On the other hand, it is doubtful whether geographic areas have any real significance as a basis for financial management decisions, particularly those involving major re-allocations of resources.

It is also doubtful whether day-to-day administrative decisions are sufficiently important to warrant involving area divisions in such decisions, and whether the personnel of such divisions would be in the best position to make such decisions unless a reasonably comprehensive complement of specialist administrative personnel were assigned to each division. If this were done, it would mean a substantial duplication of such skills and less opportunity for administrative personnel to acquire or use specialized knowledge in a given administrative area.

An arrangement in which the functional divisions (Cultural Affairs, Information, etc.) would become the centres of financial management responsibility, each controlling the cost of activities related to its function throughout the Department.

This would involve most of the advantages and disadvantages of the second arrangement. In addition, the difficulty of co-ordinating the impact on the posts of the various programs developed and implemented by the functional divisions would create a whole new set of problems. Each post would have several masters to satisfy. It would also require the costing of each major function for estimating and control purposes. This could involve post personnel in an excessive amount of time-keeping and cost allocation work. In addition, any administrative personnel assigned to the functional divisions would still have to deal with 80 to 90 posts, so that any advantages of specialization either by administrative function or by geographical area would be lost.

The delegation of financial authority to larger posts and certain headquarters divisions only.

This is a compromise approach that could be used in conjunction with any of the alternatives discussed previously. It has the advantage of giving authority to those posts and headquarters divisions whose scale of operations most warrants this authority and, in the case of the posts, where the administrative personnel at the posts are most likely to be capable of exercising such authority in a competent manner.

It has the disadvantage of requiring two sets of administrative procedures, one for posts with financial authority and another for posts without such authority. It also requires someone to establish an arbitrary cut-off point above which posts would be given financial authority and below which they would not - which might be difficult to justify to those posts just below the line and which would leave the smaller posts facing the same difficulties they are experiencing at present.

A modification of the fourth approach, whereby larger posts would exercise a degree of financial authority over smaller posts in their geographical areas.

This alternative has the advantage that financial management decisions would be made by personnel who were aware of the conditions in a given area, and lines of communication on such decisions would be somewhat shorter. On the other hand, these decisions would be made

without the administrative expertise available at Headquarters, and could only be made in the context of the particular posts coming within the jurisdiction of the larger posts. Thus, this arrangement is subject to the same drawback as the area division alternative regarding the unsuitability of a geographic region as a unit for financial management.

The appointment of "ombudsmen" to represent the posts' interests at headquarters and to be responsible either to the Deputy Under-Secretary or to the Assistant Under-Secretary - Administration.

This is also a variation that could be used with any one of a number of previous alternatives, and a modified version of it has been incorporated in our proposed structure. However, it is difficult to visualize such individuals, if too far removed from the administrative divisions, being able to exercise any substantial amount of financial authority without having a staff of administrative specialists. The result would be a fragmentation of administrative expertise. It might also result in differences with the administrative divisions having to be resolved at the Deputy Under-Secretary level. In addition, there is the danger that such a structure might compete with or duplicate to a certain extent the role of the area divisions.

The establishment of two separate lines of communication and responsibility for Heads of Posts, one on the program or substantive side, and a separate one on administrative matters.

While this alternative, if carried to extremes, would be undesirable because it would give the post two masters to serve and because it

would formalize the separation between program planning on the one hand and resource planning and control on the other, there is an element of it in our proposed structure arising out of our belief that substantive personnel do not need to be actually involved in the allocation and control of administrative resources.

The establishment of an administrative hierarchy or line organization throughout the Department, with the foreign service personnel relieved of all administrative responsibility.

This type of arrangement is sometimes found in hospitals where the head of administration and the chief of medical staff report independently to the Hospital Board. It would have the distinct advantage of relieving foreign service personnel of all administrative detail. However, it would be impracticable from the point of view of the way in which it would divorce the policy-making from the financial management decision-making, and the fact that Heads of Posts must, in the final analysis, be held accountable for the effective functioning of their posts. This would be impossible if the post Administrative Officers were responsible to senior administrative personnel at headquarters.

#### Main Features of the Proposed System

The system of financial management that we are proposing for the Department, and which is described in detail in the remaining sections of this report, is not based on any single alternative. It is a composite approach that incorporates what we believe to be the best features of several of the alternatives. It is based on the general concept that each post should be considered a responsibility centre, along with those headquarters divisions that have significant spending responsibilities. These organizational units

would be given the maximum practicable responsibility for estimating and controlling those expenditures for which they can reasonably be held accountable.

The main features of the financial management system that we are proposing as a means of implementing this concept are outlined below.

#### Organization

1. Area Comptrollers would be appointed who would be responsible directly to the Director-General, Finance and Administration. Each Area Comptroller would be expected to act as a financial management adviser and expediter for the posts in one or more geographical areas. He would also have the authority to require clarification or elaboration on estimates, submissions, variance explanations, potential overspending or lapsing, etc., to approve requests for transfers of funds within the post budget but beyond the authority of the post to transfer, and to seek funds from other sources to meet a justified overspending within one of his posts.
2. No major changes in financial management capability or organization are being proposed for the headquarters substantive divisions or the posts. Substantive divisions include the area, functional and operational support (Legal, Protocol, etc.) divisions. We believe the administrative staff at the posts, with suitable indoctrination into the proposed system and revised procedure manuals, could handle the slightly increased responsibility without any difficulty. We also believe that the time saved in reduced communications with Ottawa would probably offset the extra time required by the slightly increased workload arising out of our proposals.

3. Headquarters administrative divisions would play an advisory and supporting role with respect to those areas of expenditure under the control of responsibility centres. In contrast to the present system, no financial control responsibility would vest in the administrative divisions for these categories of expense. In other areas of expenditure which are controlled at headquarters on a department-wide basis, such as salaries and allowances and capital programs, the appropriate administrative divisions would exercise the control, but always in consultation with the substantive personnel concerned.
4. Because of the proposed delegation to the posts of the responsibility for controlling certain types of expenditures that are presently controlled by the headquarters administrative divisions, we are suggesting the reduction and consolidation of a number of clerical positions engaged in the processing of invoices and maintaining of commitment control records in these divisions.

Program Review and Estimates

5. The Program Review would continue to be the principal vehicle for long range planning within the Department as well as for a shorter range determination of manpower requirements and allocations as a basis for preparing the Estimates. It would be carried out primarily by substantive personnel and would start with a statement of objectives and needs by each post and headquarters division. These would be assessed, consolidated, and priorities established, at successively higher levels in the Department, ending up with a recommendation from the Senior Committee to the Under-Secretary on the manpower requirements for the Department.

6. Out of the Program Review would emerge a departmental manpower budget and a tentative posting plan. This plan would be used by all responsibility centres as a basis for preparing their estimates for those categories of expenditure for which they were accountable.
7. Estimates prepared by each of the proposed responsibility centres would be reviewed and consolidated at successively higher levels within the Department. In the case of the posts, the review would be carried out by the Area Comptrollers. In the case of the headquarters substantive divisions it would be carried out by the Assistant Under-Secretary concerned, with the advice and assistance of the Director-General, Finance and Administration, and his staff. This does not mean that the Assistant Under-Secretaries would be immersed in administrative detail in the same way as the Area Comptrollers, since the estimates of the substantive divisions would consist primarily of program oriented costs (cultural exchanges, publications, etc) rather than accomodation, repairs and maintenance, and other administrative costs associated with the operation of a post.
8. When the estimates had been approved, all responsibility centres would be notified of the funds allocated to them and would be responsible for ensuring that they did not over-spend these funds without first obtaining approval from the appropriate authority.

#### Financial Controls

9. The basic difference between the system of financial control incorporated into our proposed plan and that presently employed by the Department is that responsibility centres in general, and posts in particular, would be subject to an "after the fact" rather than a "before the fact" type of control. Thus, instead of having to obtain headquarters' approval before spending more than a nominal

amount, posts would be free to spend within certain well defined limits, but would also be expected to account for the way in which funds were spent, through the proposed budget reporting system. They would also be subject to more frequent and more intensive inspections than has been the case in the past.

10. Cash control would be exercised on the basis of primary allotments within the present vote structure that would correspond with the proposed responsibility structure rather than being exercised on the basis of standard objects of expenditure as at present. Each responsibility centre would be responsible for projecting its expenditures to the end of the fiscal year and for reporting potential over-spending or lapsing of funds. Each centre would also be responsible for maintaining commitment control records and for reporting its "firm commitments" (those outstanding purchase orders or other contractual obligations likely to result in a disbursement of funds before the end of the fiscal year) at the end of each of the last three months of the year.
11. Requests for transfers of funds to meet unforeseen contingencies or to accommodate a change in plans would normally originate in a responsibility centre, but could be initiated at senior levels within the Department if the need arose out of a change in government policy. While the Director-General, Finance and Administration, and his staff of Area Comptrollers would have the primary responsibility for recommending to the Senior Committee how a major reallocation of resources could be accomplished with the least damage to the ongoing program of the Department, the substantive personnel concerned would be consulted at each step of the process.
12. Less significant transfers of funds could be approved at various levels in the Department, depending on whose budget was being affected.

Approval at the Assistant Under-Secretary level is based on the principle of "concurring authority". Under this principle, if two Assistant Under-Secretaries agree to a transfer of funds between responsibility centres under their respective jurisdictions no higher authority is needed. If they do not agree, then the matter must be referred to higher levels.

13. Because the staff rotational system makes it impracticable to delegate certain types of expenditures to responsibility centres (salaries and allowances - Canada-based staff, removal expenses, new leases, etc.), we are proposing that certain administrative divisions should be given the responsibility of administering the related funds. Since these funds represent the entire departmental allotment for a given purpose, rather than just the amount required to operate the responsibility centre concerned, we are suggesting that the authority to transfer these types of funds should be subject to much stricter control than we are proposing for other types of funds.
14. The budget of each responsibility centre would be made up of subdivisions called "reporting objects". These are simply groupings of line objects of expenditure which form the most appropriate method of classifying expenditures for planning and control purposes.
15. Each responsibility centre would be responsible for classifying and coding its own expenditures, maintaining its own commitment control records, and projecting its expenditures for the remainder of the fiscal year.

16. The posts would be responsible for sending a signal to headquarters immediately after the close of each month indicating, in total for each reporting object, their expenditures for the month against their own budgets, their expenditures on behalf of headquarters divisions as authorized by those divisions, and their planned or projected expenditures against their own budgets for the remainder of the fiscal year.
17. Information from these signals would be incorporated into the computer run prepared by the Comptroller of the Treasury, and the head of each responsibility centre and group of responsibility centres would receive a report shortly after the middle of each month containing the following information for each reporting object
  - (a) original budget
  - (b) transfers
  - (c) adjusted budget
  - (d) actual expenditures to date
  - (e) planned expenditures for the remainder of the year
  - (f) total projected expenditures for the year
  - (g) variance between (f) and (c)
18. These reports would be used by the heads of responsibility centres and responsibility groups to review the spending pattern to date of the centres under their jurisdiction, to detect potential problem areas, and to initiate the appropriate corrective action or ensure that such action is being taken. Reports covering the

posts in a given geographical area would also be given for information purposes to the head of the area division concerned.

19. The head of each responsibility centre would be responsible for preparing a brief commentary each month on the financial position of his centre, as shown by the budget reports. This commentary would include explanations of significant variances, notification of any transfers of funds that are within the authority of the head of the centre to make, requests for transfers that are beyond his authority to make or for additional funds, and an explanation of any action he plans to take to correct a potentially troublesome situation.
20. A number of substantive divisions have a role to play in the determination of the funds needed for grants, assessments and contributions (Vote 15) and how these should be paid out. For the most part, however, their involvement is primarily during the preparation of the estimates for this vote. Control over expenditures is pretty well limited to the issuing of cheques in appropriate amounts at the appropriate times. With one or two possible exceptions (such as military assistance grants) the scope for transferring funds or for exercising financial management in any other form is negligible. We are, therefore, suggesting that the Finance Division should include the funds for this vote in its estimates and should maintain the necessary records showing due dates, amounts, etc.
21. A similar situation exists with respect to both conference expenses and other travel expenditures. While the divisions concerned should participate in the preparation of the estimates covering this type of

expenditure, and should be responsible for controlling their portions of the total allotment, we do not believe they have to be formally designated as responsibility centres for this purpose. Thus, for those divisions that have not been designated as responsibility centres, we are suggesting that the Finance Division should maintain the records necessary to indicate the current status of any funds in which they have an interest, and should furnish periodic reports on this status to the divisions concerned.

22. We are proposing that the control over funds spent for property acquisition purposes should remain with the Property Management Division. However, control over funds required for acquisition of furnishings and equipment would be divided between the Material Management Division and the posts. The principle on which this division would be made is that the Material Management Division should budget for and control the funds required for the initial purchase of furnishings and equipment arising out of the opening of new posts or the expansion of existing ones, whereas the posts would be responsible for the replacement of existing furnishings and equipment or minor additions thereto. All of these purchases would, of course, still be subject to departmental guidelines.

23. While we have not attempted to suggest a more equitable and less restrictive basis for controlling allowances granted to post personnel (many of which are presently being examined by other study groups), we have indicated the need for doing so. We have

also suggested that certain allowances be placed under the control of the Head of Post and be geared to the representational needs and costs of each post.

23. No major changes are suggested with respect to control over revenues, which consist primarily of the proceeds arising out of the issue of passports. A previous study had recommended the development of a cost system to show the cost of issuing passports, renewals, and certificates of identity as a basis for reviewing the fees charged to the public for this service. We support this recommendation in principle, but have suggested a somewhat simpler method of obtaining the same information.
24. We have suggested revisions to the code of accounts used by the Department that would provide the information required by the proposed financial management system, but would not involve the use of any more digits than at present. Included in the code is an "allocation" field that would enable any item of expenditure, regardless of whose budget it came out of or who made the expenditure, to be allocated to any responsibility centre. This would enable the Department to allocate whatever expenditures it wishes to a post or other responsibility centre to determine, as far as is practicable, the actual cost of our activities in each country to which we are accredited. This would probably only be done on an annual basis.

Accounting Systems

25. Under the system we are proposing, the Comptroller of the Treasury would continue to provide accounting services to the Department. Thus, no accounting systems of any significance would be needed in the Department.
26. No major changes would be required by our proposals in the accounting systems followed by the posts. Post accounts would still be processed in basically the same manner as they are now. Copies of the recapitulation of post expenditures, presently called a "Financial Statement" and which we are suggesting should be called a "Post Cash Control Record", would provide the post's principal record of past expenditures. In addition, the monthly budget report prepared by the Comptroller of the Treasury would provide a record of expenditures made by headquarters divisions on behalf of the posts.
27. As noted previously, the Finance Division would be required to keep a few minor records such as a register of the amounts and the dates on which certain grants and assessments are to be paid. They would also be required to carry out the same accounting work they are performing now in screening post accounts and auditing travel claims.
28. We have suggested the use of sectional budget reports supplemented by weekly labour efficiency reports and a semi-annual cost analysis in the Passport Division as an alternative to the full-fledged cost system proposed by a previous study group.

29. Other headquarters divisions designated as responsibility centres would need to maintain commitment control records, and to continually update their estimates worksheets as a basis for forecasting planned expenditures. Other than this, we do not foresee the need for any accounting records of any significance in these divisions. We believe that certain records presently being maintained to record the cost of special projects, courier runs, etc. could be eliminated through the use of the "project" field in the code of accounts.
30. No change is suggested in the present letter of credit working capital advance used to finance post operations. However, there is a possibility that the faster reimbursing of the advance, that would be made possible by the signalling of expenditure information by the posts at the end of each month, could result in a reduction in the size of the advance required.
31. Two new working capital advances are proposed. One would finance the operation of the Passport Division and would make this operation self-sustaining. The other would be used to finance the departmental inventory of office supplies. This would make it possible to charge the posts and other principal users of such supplies (amounting to over \$400,000 annually) with the cost of the supplies they use, thereby introducing greater accountability into this element of expense.

## PROGRAM REVIEW AND ESTIMATES PROCEDURE

A fundamental requirement under any system of budgetary control is that of advance planning. The planning process must provide a means of stating objectives in terms that are meaningful to each responsibility centre; of bringing to bear the judgment of senior managers on the alternative plans of action proposed by each responsibility centre; and of forecasting the need for manpower and other resources to carry out the agreed plans. In this section we discuss the process of financial planning as it would take place in the Department under the proposed financial management structure. The Program Review would be the vehicle for long range planning while the annual Estimates would embody the Department's short-term resource requirements.

### The Program Review

The rationale for the Program Review as envisaged in the Glassco report is that it provides a formal procedure for:

- (a) the examination of program plans and the evaluation of program objectives, and
- (b) the forecasting of resource requirements in relation to program plans and objectives.

Before outlining the steps in the Program Review procedure we are proposing, we discuss briefly how the treatment of each of these aspects is affected by the nature of the Department's operation.

PLANS AND OBJECTIVES

For the 1968 program review, the Department used the following three components within its program:

1. Direction and Administrative Support
2. Policy Formulation and Coordination
3. Foreign Representation

The determination of resource needs in the support component is, of course, a direct reflection of program plans in terms of their effect on administrative and executive workloads and on the need for administrative resources. In the second and third components, however, resource needs must be justified directly in program terms.

The Policy Formulation and Coordination component includes mainly the substantive divisions at Headquarters. These, by and large, should be able to express their objectives and plan their activities in terms either of expected Canadian participation in specific multilateral organizations (e.g. U.N., NATO, OECD); or in terms of the growth of certain Canadian interests of a global nature (e.g. Consular, Information, Economic Affairs).

In Foreign Representation, on the other hand, if the objectives of the Department are to be stated in other than broad generalities, they must be expressed in terms of the individual countries and multilateral organizations in which Government representation is maintained by posts or missions of the Department. Within broad guidelines, the activity plans for most posts are formulated at present by the Head of Post. Since the Heads of Post are experienced senior officers of the Department and since there are some ninety individual posts abroad, a continuation of this practice would seem to be desirable

for policy reasons as well as for administrative convenience. On the other hand, this local planning should be supplemented by the introduction of a formal input on the part of Headquarters divisions to the planning process. The Program Review, therefore, should be made the occasion for a fruitful dialogue between each individual post and Headquarters. This would culminate in a statement of post objectives and plans which would represent a consensus rather than an individual point of view regarding the future activities of the post in question.

#### RESOURCE REQUIREMENTS

The other aspect of the Program Review is the forecast of resource requirements. Due to the nature of its program the operations of the Department are primarily concerned with the use of manpower. Some two-thirds of its operations and maintenance budget is consumed in salaries and salary related costs and most of the remainder is in administrative support costs of various kinds which tend to vary with the staff complement.

In this context, the most significant resource decisions are those concerning manpower. These decisions directly and immediately affect operations. To expand a program requires the allocation of additional manyears. The posts or projects from which manyears are withheld must, by definition, contract their activities. On the other hand, the financial resource requirements are essentially "support" requirements and they fall into place fairly readily once staffing decisions are made.

Good financial management requires that the "line" or program managers play the central role in planning and allocating

resources. In External Affairs it is evident that the critical judgments about resource requirements and resource allocations are those of establishment and staffing. If these are forecast in relation to program plans and objectives, and by officials with appropriate program responsibility, then there is little danger that the allocation of financial or other "support" resources could be seriously out of line with program requirements. It follows that most program officials could safely be exempted from detailed involvement in the development of financial forecasts based upon their manpower decisions.

We are proposing, therefore, that the Program Review procedure be structured as primarily a manpower planning exercise and that it be carried out mainly by the program personnel. Its financial content, aside from capital and grants, would be mainly the concern of administrative personnel, as would the Estimates procedure which follows it and which consists of a more detailed financial forecast for the first year of the plan.

#### STEPS IN THE PROGRAM REVIEW PROCEDURE

Step 1. The planning "climate" would be set by the Senior Committee in meetings with the heads of all divisions. This would inform all senior Headquarters personnel of changes in plans and objectives for the coming year and what the areas of highest priority were likely to be. Taking place more than a year before the start of the fiscal year in question, such directives would necessarily be fairly general, but would set out those continuing interests which should receive priority, as well as any significant changes which are expected.

Step 2. Area Divisions would issue a call to each post in their regions for a program review memorandum and in their letter interpret the planning "climate" as it affects the specific post in question.

Step 3. Each post would prepare a program review memorandum describing its plan of action and its manpower needs. The format should be standardized to facilitate review and should:

- (a) Set out the main lines of post activity plans and objectives for the next five years, with greater detail for the year immediately ahead;
- (b) Justify any requests for additional manpower in terms of activity plans and workload;
- (c) Justify any capital projects for which the post is requesting budget authorization (the only financial element in the memorandum).

Step 4. Area Divisions would review each post submission and prepare a written reply to the post commenting upon and suggesting revisions to activity plans and to manpower or capital requests which appear out of proportion to activity plans or which are related to activity plans with which the Division does not agree.

Step 4(a). In order to adequately review and comment upon these submissions, the Area Division would be expected to consult with other Headquarters divisions. For this purpose, area meetings would be held, chaired by the Head of the Area Division, with representatives of appropriate functional and administrative divisions. These meetings could evaluate the activity plans of posts in the area, and in particular, the workload implications in functional and administrative terms. They would consider the need for new posts, the expansion of

activities carried out in existing posts or the possible contraction of activities and the re-assignment of personnel. Such re-assignment could be to higher priority functions in the area or to the general manpower pool of the department.

Step 4(b). The functional and administrative divisions would be expected to prepare for the area meetings by studying the implications for area posts of their own future plans. In particular, the Area Comptroller should take primary responsibility for assessing post requests for increased administrative staff, and Defence Liaison (2) Division should assume the same role with regard to requests for increased security staff.

Step 4(c). Each Area Division would prepare an area summary of post plans and a forecast of manpower needs for the area with priorities established between individual officer positions requested by the posts.

Step 5(a). Activity plans and manpower requirements would be developed by each of the Headquarters divisions and incorporated in a program review memorandum. For area divisions, this review would grow out of the post review process since manpower resource needs in the division itself would be largely a function of the planned field activities requiring coordination or support in the coming years. Administrative support divisions would assess their requirements in the light of the program plans approved on the substantive side. For all divisions, the requirements for officer grade personnel would be ranked on a scale of divisional priorities.

Step 5(b). Those divisions having a responsibility for capital expenditures or grants and assessments under Vote 15 would incorporate

the relevant financial projections into their program review memoranda along with their manpower requirements.

Step 6. The Senior Committee would meet with the Heads of Division to assess the priority manpower needs for the Department as a whole. This meeting would be concerned with priorities as between posts and Headquarters, between posts or areas themselves and between Headquarters divisions. Decisions would be made as to where new staff were needed the most, where staff should be re-allocated and what should be the final departmental manpower forecasts in the Program Review. Priorities in the capital program and in the grants and assessments vote would be considered at similar meetings.

Step 7. The senior financial officials would be responsible, given the manpower plan approved in Step 6, for calculating the financial requirements in Vote 1. We suggest that, for most expenses in this vote, a per capita factor could be developed which would yield forecasts sufficiently accurate for planning purposes. We cannot see any value in developing these financial forecasts in any detail finer than departmental totals for each primary allotment in the vote.

Step 8. The drafting of the Program Review submission to Treasury Board would be coordinated by the Director General, Finance and Administration. The draft submission would be reviewed by the divisions concerned and finally by the Senior Committee. Information presented at these reviews would show the original requests by each post and division as compared to the actual allocations appearing in the Program Review document, so that differences are highlighted and could be questioned by members of the Committee if they so desire.

Step 9. Following its consideration of the Program Review submission, Treasury Board assigns a target amount to the Department for estimates purposes. This target would be translated by the Assistant Under-Secretary (Administration) into an overall manpower "target" for the Department. If this target is significantly different from the total manpower needs forecast, then the original allocations would be adjusted accordingly. The process need not be time consuming because it would consist essentially of cancelling the lowest ranked priorities in the original plan. The outcome would be a final manpower budget or posting plan for the coming year by post and division.

Step 10. Finally each responsibility centre would be advised of the manpower allocations affecting its operations. Heads of Division should revise their activity plans accordingly. Heads of Area Divisions would advise their posts individually including, where appropriate, their suggestions as to which post activities might be curtailed in order to conform to available manyear resources. This notification of the final manpower allocations would also constitute the call for estimates from each responsibility centre.

#### The Annual Estimates

The Program Review procedure would formalize the analyses and the consultations which are required to ensure that activity plans in each responsibility centre are consistent with departmental policy and that the manpower resources of the Department are allocated in accordance with program needs. On the same principle the Estimates would be made the coordinating mechanism for short term financial planning in the Department.

In order to fulfill this function, the estimates procedure must be founded on the substantive activity plans and the manpower budget of the department; it must rely heavily on the recommendations of the responsible head of each spending unit; and it must take advantage of the available expertise in the various administrative support divisions. The estimates must be coordinated and reviewed at progressively senior levels of management, but for the most part by administrative rather than substantive management.

#### STEPS IN THE ESTIMATES PROCEDURE

##### Call for Estimates

The Director General, Finance and Administration would issue a call for estimates in the form of a circular letter to the heads of all responsibility centres in the Department. The circular letter would go to each Head of Post attached to a memorandum from the Head of the Area Division concerned, setting out the final manpower budget or posting plan for that post as described in Step 10 of the Program Review Procedure. The steps involved in each of the subsequent phases of the Estimates procedure are outlined below.

##### Estimates by Responsibility Centres

1. Based upon the agreed activity plans and the posting plan, each Head of Post would prepare a budget for the coming year for all categories of expenditure for which he is held accountable. These expenses are described in a subsequent section of this report.

In some of these categories the post would not be competent to estimate costs. For these (e.g. certain equipment and furniture purchases and major repairs) the costs would be

supplied by the appropriate Headquarters staff specialists at the request of the post.

For countries where inflation is a factor or devaluation a threat, the post would be required to recommend the adjustment factor to be used and the probable timing of such an event within the year. An "adjusted" budget total for each expense category could then be computed for these posts by the Finance Division, after consultation with Government monetary authorities regarding the amount of the adjustment.

2. Based upon the posting plan, the administrative support divisions would prepare estimates of those expense categories that we are suggesting should be controlled centrally for the whole Department.
3. The functional spending divisions would prepare detailed budgets within the program plans and manpower allocations approved in the Program Review, obtaining assistance as required from the Finance Division.
4. The appropriate functional divisions would prepare estimates for the grants, assessments etc. under Vote 15 for which they were responsible. Similarly, those divisions responsible for the planning of representation at international conferences would detail their requirements for major conferences, the slate of delegates and the travel, representational and other expenses anticipated. All divisions would be responsible for submitting their plans for travel by divisional personnel during the estimates year. In each of these cases there is a need for special review procedures. Our suggestions in this regard are described later in this section.

Preliminary Budget Review

1. The draft budget for each functional spending division would be reviewed by the appropriate Assistant Under-Secretary. When he was satisfied that the budget for each division under his jurisdiction was adequate to its needs, the budgets of all functional spending divisions would be consolidated by the Finance Division.
2. The draft budgets for administrative support divisions would be reviewed by the Director General of the branch concerned, after which they would be consolidated into the branch estimates document.
3. Post estimates submissions would be received by the Area Comptroller. Having enjoyed close liaison with the substantive divisions during the program review process and having the benefit of extended administrative experience abroad, he would review the post budget from the point of view of its consistency with agreed activity plans and posting decisions, and with the target's figures established by the Treasury Board for budget increases.

In this review process the Area Comptroller would consult widely among the administrative support divisions on specific elements of the budget in order to evaluate the appropriateness of proposed expenditures and the accuracy of the cost estimates. He would also consult with the substantive divisions as required.

As a result of his review, the Area Comptroller would be in a position to suggest the reductions that could be made to the budgets of each post, if necessary, and the order in which they should be made.

The Area Comptrollers would then meet with the Director General, Finance and Administration to review the consolidated estimates for all posts in the light of how much these had to be reduced in total to stay within target figures. Possibilities for reductions in individual post's budgets would be discussed and compared, and a tentative schedule of individual reductions decided upon that would achieve the desired overall reduction.

The proposed revisions, and the reasoning behind them, would be discussed with the area division heads and the Assistant Under-Secretaries concerned, to obtain their agreement, or otherwise, on the suggested changes. Further revisions would probably be made as a result of these discussions.

It is important that these reviews and revisions be carried out in a clearly positive atmosphere. The Area Comptrollers should be in frequent contact with the posts in their respective areas while the posts' budgets are being prepared - to provide advice, obtain information for the posts and, in general, assist in any way they can. This communication should continue after the budgets have been received at Headquarters. Possibilities for reducing or otherwise revising the budgets should be discussed with the posts, to the maximum extent practicable, particularly when proposed reductions are of a sizeable amount or in a sensitive area.

Final Budget Review

The departmental Estimates fall into logical segments, each requiring consideration by senior management. Some of these segments would be ready for final review sooner than others, thus making it possible to schedule a number of meetings of the Senior Committee rather than having to wait until the complete Estimates are ready before considering any part of them. The principal segments are discussed below.

1. The capital program for the acquisition and construction of premises abroad would be the responsibility of the Property Management Division. During the program review, the general scale of expenditures in the next year would have been decided upon and overall priorities assigned to the major projects on the basis of economic and political considerations and their general desirability. In preparing its estimates, the Division would take account of any practical limitations, such as site availability, and indicate the financial implications of the projects planned for the coming year and also their impact in future years. It would include, as supplementary information, other projects of lower priority but which could be proceeded with on short notice, in case one of the higher priority projects had to be deferred.

The resulting construction and acquisition estimates would be reviewed at a special meeting of the Senior Committee. The Committee would confirm or modify the priority schedule and decide on the final budget for the program.

2. The grants, assessments and other payments under Vote 15 constitute an area of expenditure in which many of the Assistant Under-Secretaries and the divisions under them are involved. The amount required for

each of the organizations and programs supported under this vote would be estimated by the appropriate substantive division and consolidated by the Finance Division for review by the Senior Committee.

3. The cost of representation at international conferences is an item of direct program expense which is affected by the recommendations of various divisions but which also has the nature of a collective departmental responsibility. We have suggested that the divisions concerned prepare plans for major conferences including the tentative slate of delegates and the duration of their conference duty. The Finance Division would estimate the costs of travel and other expenditures implicit in these conference plans, as well as a contingency requirement, in consultation with the divisions concerned.

When the estimated cost of these plans had been consolidated by the Finance Division, the plans would be reviewed at a meeting of the Senior Committee with the heads of the divisions concerned, and a total budget for conference expense would be struck.

4. The other elements of the departmental Estimates are those for the posts, the administrative support branches, and the functional spending divisions. These would be prepared as discussed previously, consolidated by the Finance Division, and reviewed by the Assistant Under-Secretary concerned.
5. All components of the estimates would then be consolidated into a departmental Estimates Submission for review by the Senior Committee. We believe it would be advisable, for purposes of this review, to

show the original amounts requested by the head of each responsibility centre in comparison with the amounts that it is proposed to allocate to that centre. In this way, the Senior Committee could review all major revisions and satisfy themselves that such revisions are actually justified.

If, as a result of this review or subsequent discussions with the Treasury Board, it is decided that the Estimates should be reduced, the Senior Committee would define the expenditure area(s) in which it wished to economize and the extent of the cutback desired. The appropriate Assistant Under-Secretary would then work with his subordinate officials in developing the detailed changes required in the estimates submission.

#### Announcement of Final Budgets

When notification had been received from the Treasury Board that the Estimates were acceptable for presentation in the "blue book", a letter would be drafted by the Director General, Finance and Administration to be sent under the name of the Under-Secretary, to the head of each responsibility group and responsibility centre. This letter would announce the approved budget for the responsibility centre or group in the same amount of detail as the original budget submission and would authorize the head to make expenditures in the next fiscal year on that basis.

## FINANCIAL CONTROLS

In any system of financial management, adequate financial controls are an essential element of the system. This is particularly true under the program budgeting - responsibility accounting approach, because of the decentralization of authority contemplated by this approach. Heads of responsibility centres at all levels must be kept informed of the extent to which the operations for which they are responsible are being carried out in conformance with approved plans. In addition, it must be completely clear to them, as well as everyone else concerned, what authority they have for taking any necessary corrective action as a result of any deviations from such plans. In this section of our report we outline the authority that we recommend should be delegated to the heads of the proposed responsibility centres, the reports that they should receive, and the action they should be authorized to take as a result. In addition, we discuss cash and revenue controls as they apply to the Department's operations, and describe the changes in the Department's system of expenditure coding needed to meet the information requirements of the proposed plan.

### Delegation of Authority

Our suggestions with respect to the nature and the extent of the authority that we believe should be delegated to the heads of responsibility centres are described in two ways. First we discuss the general principles and authority structure upon which our proposals are based. Then we discuss the way in which these would be applied for each major category of expenditure. To give some indication of the magnitude of the change envisaged by our proposals, we start by describing very

briefly the nature of the present authority structure within the Department.

#### PRESENT DELEGATION OF AUTHORITY

As described in a previous section of the report, the existing system of financial management in the Department in general, and the authority structure in particular, are designed to provide a highly centralized, highly effective mechanism for ensuring that allotments are not overspent and funds are not allowed to lapse. Control over expenditures, for the most part, is centralized in the administrative support divisions at Headquarters. Formal allotments of funds are also made to a few substantive divisions, but even these divisions tend to rely heavily on the advice of administrative personnel in making financial decisions.

While the headquarters divisions delegate a certain amount of their authority to the field, this is done in rather a piecemeal fashion. In general, it was found that there were three types of delegation used, corresponding to three kinds of expenditures.

1. There are certain categories of expenditure in which the amount required by the posts can be forecast with a reasonable degree of accuracy. Examples of this type of expense are space rentals and salaries of locally engaged staff. In these categories, the headquarters divisions typically delegate full spending authority to the posts. However, the posts' latitude in spending these funds is tightly circumscribed by government regulations.
2. In other categories, the degree to which local requirements can vary is such that it would be almost impossible to delegate blanket

authority and still maintain centralized control. Examples are repairs and maintenance, and equipment acquisitions. For these categories, delegation is by written "expenditure authorities", which are issued for a specified purpose and limited to a specified dollar maximum.

3. Between these extremes lie certain categories of expenses wherein a reasonable amount of local discretion is imperative for operational reasons, but where centralized control would be impossible if such freedom were unrestricted. An example of such an expense is an emergency repair. In these situations, a "blanket expenditure authority" is used. This is a written authorization for the post to spend funds as required up to a specified maximum.

It will be readily apparent from even this brief description that the present system of delegation is tailor-made for the existing system of financial management, and would be completely incompatible with the system we are proposing. Since our previous analysis has demonstrated that the present system is not conducive to the most effective management of the Department's resources, we move on to a discussion of the nature and the extent of the authority that we are proposing should be delegated.

#### BASIC PRINCIPLES AND GENERAL CONSIDERATIONS

There are a number of basic principles and general considerations on which the authority structure we are proposing is based. Among the more important of these are the following:

- (a) Estimates should be prepared and expenditures controlled at the lowest level in the Department where costs can be identified

and the information and ability required to make the necessary decisions are available.

- (b) Reviews of proposed expenditures should take place, to the maximum extent possible, at the time that estimates are prepared. Once they have been approved and included in the budget of a responsibility centre, it should not be necessary for the head of that centre to obtain further approval at the time that the actual expenditure is made - provided he is still proceeding according to an approved plan and is within his budget.
- (c) Any restrictions that are placed on the authority of the head of a responsibility centre should give greater emphasis to the nature of an expenditure than to its size. Thus expenditures of a sensitive nature (security installations) or that confer a personal benefit on an individual (educational and club allowances) need to be controlled more closely than certain other types of expenditures that may involve larger dollar amounts.
- (d) Any limitations placed on authority should be by budget subdivisions rather than on an arbitrary dollar basis, except in instances where specific controls are required for political, economic or technical reasons.
- (e) There should be provision for increasing or decreasing the expenditure authority delegated to heads of responsibility centres, as such individuals demonstrate their capability, or otherwise, of exercising this authority properly.
- (f) In spite of the fact that heads of responsibility centres are responsible for the use of the manpower allocated to their centres,

we do not believe they can be held accountable for estimating and controlling the costs of such manpower as they relate to Canada-based staff. This apparent anomaly arises out of the system discussed in an earlier section, of rotating such staff every two or three years. Because the cost of this staff, as measured in terms of salaries and various types of allowances, varies with the grade and family status of the individual concerned, it is difficult to predict this cost, with any degree of accuracy, except on a department-wide basis.

#### SIGNING AUTHORITIES

A necessary corollary to the proposed decentralization of expenditure authority within the Department is the delegation of authority for incurring obligations and certifying payments. However, under the plan of financial management proposed in this report, any system of signing authorities is very much a secondary form of financial control. Primary control is exercised at the time an expenditure decision is made. The question of who signs a purchase order or certifies an invoice is principally a matter of administrative convenience or, in some cases, of internal control. For these reasons, we did not attempt to carry out the detailed analysis of purchase orders and invoices that would be required to enable us to suggest what level of signing authority would be appropriate for the personnel within each responsibility centre whose function requires that they have such authority. We suggest that such an analysis should be carried out during the implementation phase of this study. We also suggest that the full signing authority of the Deputy Head be delegated to each

*Minister*  
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head of a responsibility centre, and any attempt to indicate status implications through the use of signing authorities should be studiously avoided.

#### SENIOR MANAGEMENT AUTHORITY LEVELS

We refer throughout this section to only two levels of senior management - the Assistant Under-Secretary, in which we include the Deputy Under-Secretary, and the Under-Secretary. In practical terms, however, there are two other levels between these at which we would expect a certain number of day-to-day decisions to be made. Thus, when an Assistant Under-Secretary is faced with a financial decision which involves the jurisdiction of another Assistant Under-Secretary (for example a need to transfer funds from one jurisdiction to the other) the agreement of the two Assistant Under-Secretaries would constitute a decision that neither one of them would be empowered to make alone. This is an application of the principle of "concurring authority" referred to previously.

The Senior Committee may also form a further level of authority when empowered to do so by the Under-Secretary who is its Chairman. This delegation permits the Committee to make final decisions in any number of areas which would otherwise call for the personal attention of the Under-Secretary. In effect, therefore, while a number of the proposed procedures would, as written, require the participation of the Under-Secretary, we would expect a great many of the decisions involved to be made at one or other of the levels described above.

#### DEFINITION OF OBJECTS OF EXPENDITURE

Because of the potential confusion that exists with respect to different types of objects of expenditure, and because these terms are

used throughout the remainder of this section, we felt it would be advisable to define them at this point.

The generally accepted definition of an Object of Expenditure is a classification of expenditure according to its nature, e.g. salaries or supplies. Objects can be of three types, as follows:

- (a) Standard Object - a broad classification of expenditures previously used for parliamentary and executive control of all departmental operations, and still used in those departments that have not introduced the more effective means of control by activity and responsibility centre. Each standard object may include several reporting or line objects. (Our proposals envisage continued use of this classification, but on a reduced scale, during the implementation phase.)
- (b) Line Object - a detailed breakdown of standard objects used by those departments that have not attempted to define reporting objects. These are still required, in certain cases, for economic and other government-wide analysis purposes. Line objects presently being used by the Department of External Affairs include such items as language allowances, flags for distribution, rental of Chanceries, etc.
- (c) Reporting Object - the classification of expenditures that we are proposing should be used by each responsibility centre for management planning and control purposes, e.g. rentals, allowances, supplies, etc. This is the principal and most meaningful classification of expenditures as far as the Department is concerned. Each reporting object may consist of several of the present line objects used by the Department.

AUTHORITY STRUCTURE FOR VOTE 1 EXPENDITURES

This vote provides funds for the general administration, operation and maintenance of the Department in Ottawa and for the posts abroad. For the fiscal year 1968-69, Vote 1 represents approximately 52% of the total of the three votes in the departmental estimates. Salaries, wages and allowances accounts for approximately 63% of the funds in Vote 1. Most of the remainder consists of provision for support costs of various kinds which tend to vary with establishment. The authority structure that we suggest should be used in connection with this type of expenditure is discussed below in terms of each of the principal groups of responsibility centres.

Administration Abroad

Under the responsibility structure we are proposing, posts would become responsibility centres, and the Head of Post would be held accountable for the operation of his post within an agreed budget. This budget would consist of expenditures in a specific group of reporting objects as outlined later in this section.

With regard to such posts, there would be five identifiable levels of delegated authority, as follows:

- Level 1 - Head of Post
- Level 2 - Area Comptroller
- Level 3 - Director-General, Finance and Administration
- Level 4 - Assistant Under-Secretary (Administration)
- Level 5 - Under-Secretary.

The Head of Post would have responsibility and authority for:

- (a) determining the resources required by his post within the designated categories of expense (reporting objects)
- (b) authorizing expenditures within his approved budget, in accordance with any guidelines prescribed by central agencies or senior management. This would include transferring funds between reporting objects in the budget without prior reference to Headquarters.
- (c) reporting the results of his post's operations each month, including transfers between reporting objects and an explanation of any significant variances.

We suggest that the above should represent the ultimate stage of delegation, and that it should be implemented in progressive stages. In the first stage, for example, the Head would be authorized to transfer only between reporting objects within standard objects but not between standard objects.

The Head of Post would apply to the Area Comptroller if additional funds were required to meet unforeseen requirements and, during the implementation stages, for permission to transfer funds between standard objects in the post budget. The Area Comptroller would have authority and responsibility to:

- (a) approve transfers of funds between standard objects within the approved total budget of a post, after reviewing the need for making such transfers as well as potential alternative sources for such funds.
- (b) recommend to the Director-General, Finance and Administration, transfers of funds between posts under his jurisdiction, as required, and make joint recommendations involving transfers

between posts under his jurisdiction and those under other Area Comptrollers.

- (c) withdraw uncommitted funds from posts, on the direction of the Director-General, Finance and Administration and with the agreement of the Head of Post concerned, when transfers of such funds are urgently required to meet contingencies elsewhere.

The Director-General, Finance and Administration, would have authority to:

- (a) approve transfers and reallocation of funds between posts, based on the recommendation of the Area Comptroller(s) and with the concurrence of the Heads of Post concerned, when this is required to meet contingencies or to prevent lapsing of funds;
- (b) transfer uncommitted funds between the budgets of all support divisions and posts abroad, provided that such transfers have the concurrence of both the Heads of Post and the Branch Directors concerned.

Failing such concurrence, he would present his recommendations to the Assistant Under-Secretary (Administration).

The Assistant Under-Secretary (Administration) would have authority to approve such transfers and reallocations as are referred to him by the Director-General, Finance and Administration, after consultation with and concurrence of any other Assistant Under-Secretary who might be concerned. Failing such concurrence, he would present his recommendations to the Under-Secretary for approval.

### Headquarters Administration

At Headquarters, financial management would be divided between certain substantive divisions with responsibility for direct program expenditures and other divisions whose function is mainly administrative support. The suggested authority structure for the administrative support divisions is discussed below, and that for the substantive divisions under the next sideheading, Program Direct Costs.

The administrative support divisions are grouped into three branches under three Directors-General - Communications, Personnel, and Finance and Administration - all reporting to the Assistant Under-Secretary (Administration). There would be four distinct levels at which budgetary control would be exercised in respect of these divisions:

- Level 1 - Head of Division (if a responsibility centre)
- Level 2 - Director-General
- Level 3 - Assistant Under-Secretary (Administration)
- Level 4 - Under-Secretary.

The Head of Division would have responsibility and authority to:

- (a) determine the resources required by his division in those categories of expense that are his designated responsibility.
- (b) authorize expenditures up to the total of each reporting object within his approved budget, subject to prescribed regulations and guidelines.
- (c) recommend the transfer of funds between reporting objects as required.

The head of one of these responsibility centres (whether a division or a branch) would have to seek the approval of higher authority for any transfers

of funds within his budget as well as for any additional funds required and not available within his budget. The Director-General would review such recommendations and, if he concurred in them, pass them to the Assistant Under-Secretary (Administration) for final approval.

It will be noted that the authority we propose should be delegated to the administrative support divisions is substantially less than that proposed for other responsibility centres. In fact, the authority for all significant reallocations of administrative resources is reserved to the Assistant Under-Secretary (Administration). This greater restriction is in recognition of the special nature of the budgets in these divisions. The budgets of other responsibility centres are based primarily on their own operating requirements, and expenditure decisions within these centres can be made on the basis of conditions that apply within their units alone. The administrative support divisions, in contrast, budget for the Department's total requirements in certain classes of expenditure. Their expenditure decisions, therefore, have department-wide implications, and any reallocations of funds are likely to represent departures from approved plans, which should be subject to consideration and approval at a senior level in the Department in order to ensure that all factors have been taken into account and properly weighed.

There is, however, one division that does not fall into this category - the Central Services Division in the Finance and Administration Branch. It is a responsibility centre whose budget is related entirely to the task of providing certain support services to the Headquarters staff of the Department. Transfers of funds within its budget would not represent a major shift in resources. We suggest, therefore,

that this Division should be delegated the same kind of authority for expenditure approval and transfer of funds as is delegated to a Head of Post.

Program Direct Costs

We are proposing that the following substantive divisions should be regarded as responsibility centres and should continue to have responsibility for controlling program expenditures.

Consular  
Cultural Affairs  
Defence Liaison (2)  
Historical  
Information  
Passport  
Press and Liaison  
Protocol

There would be three levels at which budgetary control would be exercised in respect of these divisions:

- Level 1 - Head of Division
- Level 2 - Assistant Under-Secretary
- Level 3 - Under-Secretary

The Head of Division would have the same responsibility and authority as outlined earlier for a Head of Post. He would seek approval of the Assistant Under-Secretary for any transfers between standard objects in his approved budget and would present to him any cases requiring additional funds.

The Assistant Under-Secretary concerned would first try to meet such requirements within the overall resources of the divisions

within his own jurisdiction. Should this prove impossible, he would consult with the Assistant Under-Secretary, Administration and the Director-General, Finance and Administration to determine possible sources from which the required funds might be withdrawn. If surplus funds existed within the jurisdiction of another Assistant Under-Secretary, he would attempt to gain the concurrence of the Assistant Under-Secretary to a transfer of some or all of these funds to his own jurisdiction. Failing this, he could bring the matter to the attention of the Under-Secretary, who would then direct the reallocation of resources from wherever in the Department he judged the priorities to be lowest.

It will be noted that we have not attempted to bring the senior financial personnel of the Department into these deliberations, except as their advice and assistance is requested, because of our belief that reallocation of program oriented resources (as contrasted with administrative resources) should be the responsibility of program (substantive) personnel.

#### Representation at International Conferences

Expenses connected with international conferences are segregated and identified in the annual Estimates as a subdivision of Vote 1. Approximately 90% of the estimates provision is concerned with travelling and transportation expenses, and a number of area and other substantive divisions are involved in the planning required for these conferences. Most of these divisions, however, do not have expenditure responsibilities and have not been designated as responsibility centres.

The section of our report on Program Review and Estimates Procedures describes the roles of the substantive divisions and the

Finance Division in planning for these conferences. While the ultimate responsibility for deciding on the disposition of the funds approved for this purpose should remain with these same substantive divisions, we suggest that the Finance Division, as a matter of administrative convenience, should maintain the necessary records and carry the related funds within its budget. From these records, the Finance Division would prepare a monthly report listing the budget for each conference and the amount remaining unspent. This report, circulated to all the divisions concerned, would enable them to assess the adequacy of funds still available, the need for changes in plans, etc. If reallocations were called for, the division heads would negotiate these among themselves and advise the Finance Division of the adjusted budgets. Final recourse for reallocation decisions would be to the Assistant Under-Secretaries concerned or the Under-Secretary, if necessary.

#### Other headquarters travel

All heads of division would be responsible for determining the funds required by their divisions for travel purposes, and would be held accountable for staying within the amounts approved for each division in this connection. Those divisions that have been designated as responsibility centres would be expected to maintain the same control over the expenditure of travel funds as they would for other items in their budgets.

Those divisions, however, that have not been designated as responsibility centres but which still incur travel expenses, would not be expected to set up the necessary records and procedures to control this area of expense only. This would be done as a service to these

units, by the Finance Division, and monthly statements would be prepared to inform the divisions of the status of the travel funds allotted, expenditures to date and free balance. Each division would then be responsible for planning its travel activities within the funds available to it and for negotiating for additional funds as required.

AUTHORITY STRUCTURE UNDER VOTE 10

This vote provides funds to meet departmental capital expenditures for:

1. The acquisition or construction of property and buildings for use as chanceries, official residences, staff accommodation and ancillary buildings, and
2. The acquisition of furnishings, motor vehicles, appliances<sup>supplied</sup> and other equipment not used in offices.

Property Management Division

The Department has embarked on a major long-term program for the acquisition and construction of the accommodation required by its posts. The resources for this capital program need to be planned and controlled centrally to ensure coordination with other department-wide planning activities, to provide the flexibility needed to meet changing conditions and priorities, and to take advantage of the pool of specialized knowledge available within the Division. The most appropriate unit for carrying out this function is, of course, the Property Management Division of Finance and Administration Branch, and we are suggesting it should be designated as a responsibility centre for this purpose.

In the section on Program Review and Estimates Procedures, we described the role of this Division in planning capital projects under the priority rankings given to them by the senior management of the Department. During the fiscal year, the Division should be delegated the authority to approve expenditures required to carry out projects in the approved budget. When it appeared that costs on a high priority project were going to exceed the amount provided in the budget for the project, the Division would recommend to the Director-General, Finance and Administration the project or projects that could be deferred or slowed down to provide the necessary funds. If this would represent a significant departure from approved plans, the Director-General would refer the matter to the Assistant Under-Secretary for discussion at a meeting of the Senior Committee. Otherwise, the Director-General would decide on the source of the needed funds.

Similarly, the Division would not be empowered to depart from approved plans by initiating other projects or changing priorities. Any recommendations for such changes would be referred to the Director-General and the Assistant Under-Secretary, (Administration), and through them to the Senior Committee, where required.

#### Other responsibility centres

The second segment of Vote 10 is of concern to a number of responsibility centres in the Department that require items of furnishings and equipment to carry on their operations. As a general principle, we believe that any responsibility centre that has a need for such items should budget for and control its expenditures in this area in the same manner as suggested previously for expenditures in Vote 1. As discussed in detail later in this section, the following

responsibility centres would fall in this category:

All Posts

Central Services Division

Communications Division

Defence Liaison (2) Division

Materiel Management Division

There are, however, two important exceptions to this general principle. One concerns motor vehicles and objects of art. The other concerns the purchase of furnishings and equipment for newly established posts and for newly acquired premises at existing posts.

In both of these areas, we suggest that the Materiel Management Division should be given the responsibility for estimating and controlling expenditures for the Department as a whole. As suggested previously, the Division should be free to spend up to the approved total for each of these reporting objects within its budget, but, due to the Department-wide implications of these expenditures, would have to seek the approval of the Director-General, Finance and Administration, for reallocations of funds between reporting objects.

Our proposals for delegating greater authority to responsibility centres in connection with the acquisition of furnishings and equipment takes into account the fact that numerous controls of a non-financial nature can be used in these areas, and are predicated on the assumption of a greatly expanded use of guidelines and manuals in areas such as estimated useful lives of various types of equipment and furnishings, scales of issue, local versus Canadian procurement, etc.

One example of a sensitive area is the decoration and furnishing of official residences, staff accommodation and, to a lesser degree, chanceries. In particular, the furnishing of formal representational areas of official residences is generally the result of carefully planned and designed furnishing schemes utilizing the expertise of professional designers on the staff of the Materiel Management Division. Generally speaking, no standard furnishing scheme can be prescribed, but each must suit the individual characteristics and layout of the residence, together with the overriding requirement to present the most appropriate physical image of Canadian representation in the country concerned. Therefore, while posts would budget for and control the funds required for refurnishing of existing premises, they should be able to rely on extensive written guidelines as well as on advice and assistance, as required, from the specialist staff of the Materiel Management Division.

#### AUTHORITY STRUCTURE UNDER VOTE 15

This vote covers provision for assessments, grants, contributions and other payments to international organizations, as detailed and approved in the departmental estimates.

A number of substantive divisions share the responsibility for departmental expenditures in this area. Their participation in the preparation of the estimates for this vote was described in an earlier section. There is not the same need, however, for them to be involved in authorizing the actual expenditures, since payments can be made only to the organizations and for the purposes specified in the estimates.

Given this limitation, we did not feel it was necessary to designate these divisions as responsibility centres for this vote, and have them involved in the record keeping and reporting which this implies. Accordingly, we recommend that the Finance Division continue, as at present, to maintain all records related to Vote 15 and to ensure that information concerning the status of the Vote and each element within it is readily accessible at all times. In addition, a periodic report would be prepared by the Finance Division and circulated to the divisions concerned in order to keep them informed concerning the status of payments under this vote.

In the case of the military assistance programs managed by the Defence Liaison (1) Division, there is greater scope for the reallocation of resources than exists with respect to the remainder of the expenditures under Vote 15. Thus the information needs of this division may be different than those of the other divisions concerned with this vote, and should be taken into account by the Finance Division in developing its reporting structure for Vote 15 expenditures.

#### EXTENT OF PROPOSED DELEGATION

In our description of the way in which we propose authority should be delegated in the Department, we have been concentrating up to this point on the general conditions and the structure under which it would be delegated. In the paragraphs that follow, we set out the types of expenditure that we suggest should be delegated to each responsibility centre and the extent to which it should be delegated. Where appropriate, we provide an explanation of the way in which we are suggesting this delegation should take place and our reasons for making these suggestions.

DEPARTMENT OF EXTERNAL AFFAIRSObjects of Expenditure to be Controlled by Posts  
and Used for Reporting Purposes

<u>Standard Object</u>	<u>Reporting Object</u>	<u>Description</u>
		<u>Vote 1: Departmental Administration</u>
01	1	Salaries and Wages - Local: including casuals and emergency staff, over-time and retroactive pay.
	2	Direct Representation: including dual and multiple accreditation, and club allowances and July 1st reception costs.
02	3	Travelling and Transportation: including dual and multiple accreditation travel and local transportation.
	4	Other Communications: including freight, express and cartage; postage, telephone, telegrams, cables and wireless; rental of telecommunications lines and equipment.
03	5	Information Services: including promotional activities and exhibits; miscellaneous printing of publications, film catalogues, etc.
04	6	Professional and Special Services: including legal, protection and miscellaneous business services; building maintenance by contract; film service maintenance and micro-filming services; prestige film showings; local storage.
05	7	Rentals - Buildings: including chancery, official residence, staff quarters and other buildings.
	8	Rentals - Other: including machinery, equipment, furnishings and vehicles.
06	9	Repairs and Upkeep - Chancery: including renovations and alterations; purchased repairs and maintenance of office equipment, furnishings and security installations.
	10	Repairs and Upkeep - Official Residence: including renovations and alterations; purchased repairs and maintenance of appliances, equipment and furnishings.
	11	Repairs and Upkeep - Staff Quarters: including renovations and alterations; purchased repairs and maintenance of appliances, equipment and furnishings.
	12	Repairs and Upkeep - Other: including landscaping maintenance, motor vehicles repairs and maintenance, and miscellaneous.
07	13	Utilities: including fuels for heating.
	14	Materials and Supplies: including office supplies; household and other miscellaneous supplies; fuel, grease, oil, tires, tubes and accessories for Post vehicles; clothing for local staff; subscriptions and library purchases for use at Post.
12	15	Miscellaneous Expenditures: including gifts to trades people, local payments for Canadian dollar cheques, etc.
09	16	<u>Vote 10: Capital</u> : including acquisition of appliances and equipment for official residence and staff quarters; acquisition of furnishings for chancery, official residence and staff quarters.

The expenditures that we are proposing should be controlled by each type of responsibility centre are set out in three exhibits facing this and the next two pages. Exhibit 6-1 illustrates the kinds of expenditures that we suggest should be controlled by the posts. Exhibit 6-2 sets out the same picture for the functional spending divisions, and Exhibit 6-3 covers the administrative support divisions. Each of these charts should be read in conjunction with the explanatory narrative contained in the pages that follow, which describes for certain standard objects of expenditure how our proposals would work, and why we are making them.

In the case of the posts, Exhibit 6-1 sets out the reporting objects that we suggest should be used by each post. The breakdown of the standard objects shown in Exhibits 6-2 and 6-3 are, for the most part, the line objects presently used by the divisions concerned. However, we have grouped them in a few cases, to conserve space.

These classifications were all reviewed just prior to the commencement of our study, in connection with the revision of the departmental coding system. At that time, the division heads concerned stated that this was the classification of expenditures they needed for control purposes. Since this fits our definition of a reporting object, we have not suggested any changes.

#### Personnel - Salaries and Allowances

This standard object covers all salaries and personnel related expenditures, such as rent allowances, basic foreign service allowances, direct and indirect representation allowances, etc., and includes salaries, wages and certain other expenditures in respect of

## DEPARTMENT OF EXTERNAL AFFAIRS

## Objects of Expenditure to be Controlled by Substantive Divisions

Standard Object	Description	Consular	Cultural Affairs	Defence Liaison (2)	Historical Information	Passport	Press & Liaison	Protocol
	Vote 1: Departmental Administration							
01	Salaries of Canada engaged personnel, including casuals, overtime and retroactive pay					X		
	Locally-engaged casuals		X					
02	Travelling and transportation expenses (temporary duty).	X	X	X	X	X	X	X
	Travelling expenses - non-public servants		X					X
	Travelling expenses - visitors' program				X			
	Freight, express and cartage		X			X		
	Postage					X		
	Telephones					X		
	Telegrams, cables and wireless					X		
03	Promotional activities (including exhibits, display material, portable exhibits, posters, advertising, and miscellaneous publicity materials, including related invitations).		X			X		
	Printing of Canada Treaty Series					X		
	Printing of State Papers				X			
	Printing of the Departmental Annual Report and special publications					X		
	Musical scores		X			X		
	Maps, charts and flags for distribution.					X		
	Printing of "Canadian Representatives Abroad" and "Representatives of Other Countries in Canada"							X
	Printing of "Diplomatic Corps"							X
	Miscellaneous purchased publications for distribution		X			X		
	Miscellaneous printing of other publications		X			X		
04	Speakers Program		X					
	Photos and illustrations		X			X		
	Writers and translation fees		X			X		
	Other business services		X					
	Micro-filming services					X		
	Protective services			X				
	Press News Service						X	
05	Rental of other buildings - auditorium, halls, etc.		X					
06	Purchased repair and upkeep of office machines					X		
07	Miscellaneous food, beverages and tobacco (official entertainment).		X					X
	Office machines and equipment.					X		
	Office materials, household supplies and printed matter.	X	X	X	X	X	X	X
	Uniforms.							X
	Passport blanks, certificates, special paper, applications and other passport forms					X		
	Subscriptions to newspapers, periodicals, etc. (Purchased by Headquarters.)				X			
	Library purchases (by Headquarters).				X			
	Purchased books, leaflets and other printed matter.		X					
10	Grants to Canadian artists and artistic groups		X					
	Payments on behalf of distressed Canadians	X						
	Refunds on behalf of distressed Canadians (credit).	X						
	Transfer payments to Canada Council		X					
12	Miscellaneous other expenditures.		X			X		
	Vote 10: Capital Expenditures							
09	Construction or acquisition of security equipment.			X				

locally-engaged staff at posts. Many of the expenditures are controlled by regulations set by the Treasury Board and the Public Service Commission. As explained previously, because of the difficulties involved in estimating and controlling salaries and most types of allowances for Canada-based staff by responsibility centre, we are suggesting that these should be estimated and controlled centrally by the Personnel Branch. However, this is not the case with respect to the costs of locally-engaged staff, direct representation allowance, club allowance, and dual and multiple accreditation allowance, and we are suggesting that responsibility for these items of expenditure should be delegated to the posts.

Locally-Engaged Staff. At the present time Treasury Board, through the locally-engaged staff regulations, controls in large measure the number of established positions, classifications and rates of pay for local employees. The Under-Secretary may approve rates of pay within a classification, the payment of overtime, and also authorize the employment of casual and emergency help, within certain limitations.

The logical centre of control for the compensation of locally-engaged employees is the post and these expenses should form a reporting object within each post's budget. However, because of the importance of maintaining uniform treatment for the staff of all departments represented at a post, it would be desirable to set up some control mechanism, both at Ottawa and at the post, to prevent grievances which could result from inequality of treatment.

We therefore recommend that, subject to amendment of the locally-engaged staff regulations by Treasury Board:

- (a) the number of local staff positions for each post and the salary ranges for each classification of position at that post be controlled

## DEPARTMENT OF EXTERNAL AFFAIRS

## Objects of Expenditure to be Controlled by Administrative Support Divisions

Standard Object	Description	Communications and Information Systems Branch	Personnel Branch	Finance and Administration Branch			
				Finance	Property Management	Material Management	Central Services
Vote 1: Departmental Administration							
01	Salaries of Canada engaged personnel, including casuals, overtime and retroactive pay.		X				
	Basic foreign service allowance, including supplementary foreign service and non-resident allowance for children.		X				
	Salary equalization allowance		X				
	Home allowance - basic and supplementary, and differential allowance		X				
	Allowances for indirect representation, tropical clothing, language.		X				
	Transfer allowance (on posting abroad), separation allowance (Indo-China), transition allowance.		X				
	Rent allowance and employee's share of rent, including security deposit.		X				
	Allowances for education and education travel.		X				
	Department's share of Post Co-op. medical services, and medical travel expenses under Foreign Service Regulations.		X				
	Board and subsistence, including accountable advances.		X				
02	Travelling and transportation expenses (temporary duty) of personnel, including accountable advances.	X	X	X	X	X	X
	Travelling and transportation - non-public servants		X				
	Removal-travel expenses of personnel on posting and recruitment, including rental reimbursement and installation costs.		X				
	Removal-transportation of things on posting and on recruitment including packing charges.		X				
	Assisted leave and emergency evacuation		X				
	Courier services-travel (including baggage charges) and carriage of diplomatic mail.	X					
	Postage, telephones, telegrams, cables, wireless	X					
	Rental of communications lines and equipment	X					
	Freight, express and cartage					X	
04	Accounting services			X			
	Legal services, real estate and engineering services.				X		
	Tuition and examination fees (including language), training of public servants, including travel.		X				
	Medical examination and hospitalization upon return to Canada			X			
	Passport photos			X			
	Outside reporting services, and other business services.		X				
	Micro-filming services.	X					
	Storage of household effects.		X				
05	Rental of buildings, machinery, equipment, motor vehicles and household furnishings.				X	X	X
06	Repair of machinery, equipment, office machines and office furnishings, Headquarters.						X
07	Taxes on diplomatic properties			X			
	Fuel, grease, oil, tires, tubes, accessories and spare parts for Headquarters motor vehicles.						X
	Office materials, supplies, printed matter, office machines and equipment (bulk purchases).					X	
	Household and other miscellaneous supplies (bulk purchases).					X	
	Food costs and local salaries re residence staff when Head of Post not in receipt of Head of Post allowance		X				
	Parts for communications equipment.	X					
10	Ex-gratia payments			X			
	Grant to National Research Council	X					
12	Profit and loss on exchange, bank charges			X			
	Claims against the Crown.			X			
	Compensation to employees for loss or damage to furniture and effects, including general coverage claims.		X				
Vote 10: Capital Expenditures							
08	Acquisition of land, landscaping, construction and acquisition of chanceries, official residences, staff quarters and other buildings, including advances to Posts.				X		
09	Paintings and objects of art						
	Communications equipment	X				X	
	Appliances, equipment and furnishings - initial procurement for Posts abroad - Headquarters requirements					X	
	Motor vehicles.						X
	Miscellaneous other technical equipment (initial procurement).					X	
Vote 15: Transfer Payments.							
10	Contributions, grants and payments to international commissions and organizations, including Commonwealth, and miscellaneous grants and payments.			X			

at the departmental level, but the Head of Post be authorized to reclassify positions, set rates of pay within the approved salary range for each classification, and promote and demote within establishment.

- (b) to ensure uniformity of classifications and salary ranges, each Head of Post should establish a local salary classification board, with representatives from all government departments at the post, to evaluate and approve proposed reclassifications, and recommend revisions, as appropriate, to the salary ranges for local staff classifications. These would be subject to periodic audit by headquarters personnel.
- (c) authority be given to the Head of Post to engage emergency and casual staff and pay overtime, as required.

We also recommend that medical examinations of domestic servants and local office staff, gratuities to local staff, and social security payments under local law, be paid under the authority of the Head of Post.

Representation Allowances. Direct Representation Allowance is recognized as a sensitive area of expenditure of public funds, and at present is very closely controlled by Treasury Board through the Foreign Service Regulations. However, this is clearly a program oriented expenditure, and the amount of the allowance required for representational purposes can vary significantly with the size, location, and social customs of the country in which a post is located. We therefore recommend that the Department should have full responsibility for the management of the funds provided for this purpose. We also recommend that the Heads of Post should be required to estimate and justify the size of the representational allowances needed by the staff at their respective posts. Once these have been approved, he should be able

to authorize expenditures in this area up to the limit of the funds provided, and subject to whatever substantiation the Department considers appropriate.

Since the system of approvals we are proposing would allow a Head of Post to transfer funds into this reporting object from the salaries and wages (local staff) reporting object in the initial stage of delegation and from all other reporting objects in the ultimate stage, the Department may wish to treat this one reporting object as an exception to the general rule, and require a Head of Post to obtain headquarters approval before making such a transfer.

It should be kept in mind in this connection that any potential overspending in this area would probably become evident through the budget reports long before the actual overspending occurred. The reasons for the potential overspending would also be set out in the explanation of variances accompanying the Supplementary Budget Report from the post concerned. Thus, a procedure could be established where potential overspending in this area could be referred to the Assistant Under-Secretary concerned for a ruling on whether extra funds should be provided or the representational expenses of the post curtailed to stay within the budget provided for this purpose.

We also recommend that Dual and Multiple Accreditation Allowances, Club Allowances, and the provision for July 1 Receptions, which would be included in the same reporting object as Direct Representation Allowances, should be budgeted for by each post.

Rental Allowance. Housing of personnel is probably the greatest single headache in the administration of most posts. A great deal of time and effort has been spent by the Department and the Treasury Board in trying to come up with a workable solution to this problem.

Under the present regulations, Heads of Post may authorize the payment of rent up to an employee's basic share for his grade. However, since no rents in the Foreign Service are less than this basic share, the Head of Post has in fact no authority. The Department may authorize rents up to the employee's basic ceiling, and about 75% of rental payments fall in this category. Under the Foreign Service Regulations, rents over this amount have to be approved individually by the Treasury Board.

Since the rental ceilings imposed by the Foreign Service Regulations apply uniformly throughout the world, high cost posts have a continuing problem and can never lease appropriate housing without the time consuming process of having the Department first obtain Treasury Board approval.

We understand that the Inter-Departmental Committee on Foreign Service Regulations has had this matter under study for some time. For this reason, and because it comes only indirectly into our terms of reference, we have not attempted any detailed examination of the problem. Nevertheless, the inadequacy of the present arrangements was brought to our attention repeatedly and forcefully throughout our investigations, and we feel it would be worthwhile pointing out two overriding considerations that we believe must be taken into account if a permanent solution to this problem is ever going to be found.

First of all, the system of rental allowances (or subsidies as they could more properly be called) must be flexible enough to handle the widely varying housing costs of different countries. Any system based on global ceilings is self defeating

in this respect since it very quickly becomes the standard in lower cost areas while in higher cost areas it becomes simply the starting point for petitions of exception. Total costs are almost certainly higher under such a system, since any upward revision of the ceilings, based on pressure in a few countries, results in increases everywhere within a short time.

Secondly, administration of the scheme should place maximum reliance on the Head of Post for the approval of individual rental arrangements, within whatever guidelines are eventually established, even if it is not possible to give him the responsibility for estimating and controlling the cost of private leases at his post because of the effect of the rotational system. Any other method is likely to create unnecessary delays and expense due to missed opportunities, waiting for headquarters approvals, etc. Along with the subsistence and other costs involved in housing an employee and his family in a hotel while they are looking for suitable accommodation, there can be a costly disruption of post routine during the period a newcomer is preoccupied with finding such accommodation, and thus unable to assume fully those duties which required his posting in the first place.

#### Transportation and Communications

This standard object covers the travel and removal of personnel, freight, express and cartage, postage, telephone and other types of communication services.

In this, as in most other standard objects, the basic criteria for deciding whether an item should or should not be included

in the posts' budgets is whether it can be considered to be part of normal post operations, and whether the associated expenditure can best be estimated and controlled at the post level. If so, it should be included. If, on the other hand, the expenditure results from a decision made by a headquarters division, then it should be included in the budget of that division.

Travelling and transportation of government employees at a post, local transportation, and dual and multiple accreditation travel would all fall in the former category, and we suggest they should be included in one reporting object. The Head of Post would be free to spend the funds provided in his budget for this object, as he considers appropriate, within the limitations of government travel regulations. A per diem rate for meals and incidentals would be very useful as a guideline to posts in estimating travel costs.

Post requirements for freight, express and cartage, postage, telephones, telegrams, cables and wireless, and local rental of communications equipment would be included as another reporting object within the post budget.

A certain number of headquarters responsibility centres would also have significant expenditures in this standard object as shown in Exhibits 6-2 and 6-3. This is particularly true of "removal" expenses associated with the posting and recruitment of personnel and the transportation of their belongings, which would be budgeted for and controlled by the Personnel Branch.

Information Activities

We recommend that the posts should be responsible for estimating and controlling expenditures connected with minor promotional activities, including materials for posters, displays, advertising, invitations and miscellaneous materials, and miscellaneous printing such as films and library catalogues.

At Headquarters, the major expenditures under this standard object would be made by the Information and Cultural Affairs Divisions, and minor ones by the Historical and Protocol Divisions.

PROFESSIONAL AND SPECIAL SERVICES

This standard object covers services performed by individuals and organizations outside the Department, for which fees, commissions or other payments are made from public funds. These include professional fees such as legal, medical, engineering, architectural, etc., as well as the cost of services such as protection, storage, language tuition, film servicing, etc.

The way in which we suggest that responsibility for these expenditures should be divided between the posts and the various headquarters responsibility centres is illustrated by the reporting and line objects shown under this standard object in the exhibits.

Rentals

This standard object covers rentals for chanceries, official residences, <sup>(other than private leasing - covered under 90 01)</sup> residential (staff) quarters, and other facilities such as garage and parking space, auditorium, halls and storage areas. Also included is the rental of machinery, equipment and furnishings for

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chanceries, official residences and residential quarters, and the rental of motor vehicles.

Government Contracts Regulations prescribe the authority which may be delegated to departments, but Treasury Board minute number 658829 dated October 4, 1966, specifically provides increased authority to the Department of External Affairs to enter into leases for accommodation abroad, subject to the following conditions:

- (a) All leases must be for a term of not more than ten years, with option to renew.
- (b) The annual rental payable for office accommodation should not exceed \$30,000 and for official residences it should not be more than \$20,000.
- (c) The annual rental payable for staff accommodation should not exceed the amount that the Department can approve in respect of private leases for its employees under the Foreign Service Regulations.

In addition, certain criteria are set forth to which the type of accommodation must conform, such as space standards for office accommodation and official residences, restriction as to number of bedrooms for married and single personnel in staff accommodation, the rental ceiling for staff accommodation, etc.

Generally speaking, control over Crown leases rests with the Department, and no rental arrangements are entered into at posts without prior departmental authority. While no change is envisaged in this policy, we recommend that all rental payments under approved

leases, with the minor exception noted below, be budgeted for and controlled by the post.

The exception referred to in the previous paragraph concerns those cases where a new post is to be opened during a year and must be financed until its own budget takes effect at the beginning of the next fiscal year. We suggest that the Property Management Division should budget for and control this type of expenditure.

The provision in estimates for rentals of machinery and equipment, motor vehicles, furnishings, etc. is relatively insignificant. One of the more common types of expenditure within this category is the rental of motor vehicles while official vehicles are out of commission awaiting parts or due to other servicing difficulties. We suggest such expenditures should be controlled by Central Services Division in the case of Headquarters' needs, and the posts with respect to their own needs.

#### Special Note on Staff Accommodation

The delegation of budgetary responsibilities that we are proposing would result in the transfer to post budgets from the Property Management Division of all funds related to Crown leases, with the exception noted previously.

These arrangements cover only part of the total cost of staff accommodation, however. A larger element in this cost, at the moment, is the subsidy that is extended to holders of privately leased accommodation abroad. This subsidy takes the form of an

allowance, is included in the funds provided for salaries and allowances, and is the administrative responsibility of the Personnel Branch.

While this presents somewhat of an organizational anomaly, we suggest that, because of the difficulties that would be involved in estimating and controlling this type of expenditure by post, the Personnel Branch should continue to carry out this responsibility. Costs in this area, as far as any given post is concerned, can vary widely depending on the timing of a posting, the rank of the individual being posted and the size of his family. Thus, accurate estimating can only be done on a department-wide basis and can be done most effectively in the Personnel Branch, where all posting plans are readily available.

During each fiscal year, a number of staff quarters will be acquired under Crown lease. For the fiscal year following, the cost of these newly acquired quarters, along with all other Crown leases, would be provided for in the post budget. There remains the problem, however, of who should provide the funds to pay for the Crown lease during the balance of the fiscal year in which it was signed - it is no longer an allowance, and yet funds would not have been provided in the budget of the post concerned to pay for it as a Crown lease.

We suggest that the post should pay such rents and that it should be provided with the necessary funds to do so by way of expenditure authorities issued by the Personnel Branch, which would automatically transfer an equivalent amount of funds in its

budget from the rent allowances reporting object to the rentals reporting object.

Purchased Repairs and Upkeep

Expenditures in this standard object cover a wide range of repair and upkeep expenses. These include landscaping maintenance; renovations, alterations, and maintenance of chanceries, official residences, staff quarters and other buildings; security installations at chanceries; and repairs and maintenance of furnishings and all types of equipment, including motor vehicles.

For the purpose of suggesting the way in which authority should be delegated for these types of expenditures, we have classed them into two groups. The first group consists of landscaping maintenance (where overall scheme is changed), security installations, and renovations and alterations to government-owned buildings at the posts. The second group consists of all other types of maintenance and repair expenditures.

Expenditures coming within the first group would be budgeted for by the posts concerned on a project basis, and control would be exercised in the same way. Any change of projects would require Headquarters' approval.

Control over these projects would be exercised by Headquarters mainly in two ways:

1. through reports of the Inspection Service staff;
2. through "project completion reports" which would be forwarded for Headquarters' files as these major projects were finished and which should include, wherever possible, before and after snapshots.

It would be possible, if considered desirable, to provide a greater degree of control through the financial management system by requiring Headquarters' approval if projected costs, at the time that a project is let out to tender or a firm price is obtained, were more than, say, 10% above estimates. However, we decided against making this recommendation for three reasons:

1. it would be unreasonable to expect estimates to be that accurate when they are prepared up to eighteen months ahead;
2. in a number of cases contractors refuse to provide estimates when there is no immediate prospect of a contract in sight and when they are being asked to commit themselves on labour and other costs so far ahead of the actual job;
3. renovations often encounter unforeseeable construction difficulties.

At the same time, it would not be unreasonable to provide for a gross control over undue escalation of costs in this area by providing for projects on which the anticipated cost is likely to be more than 25% or 50% above estimates to be referred to Headquarters for approval.

For expenditures in the second group, post budgets would consist largely of lump sum estimates by "kind of work", e.g. electrical, plumbing, painting, or by type of equipment, e.g. household, office, motor vehicle, etc. In this group, the post would be delegated the usual full spending authority with after-the-fact reporting only.

Thus, we are recommending that all expenditures in both groups should be the responsibility of the post for budgeting and controlling. As shown in Exhibit 6-1, we believe these items should be

consolidated into four reporting objects reflecting activities respectively at the chancery, residence, staff quarters, and vehicle and miscellaneous repairs. In all cases, posts should have available to them guidelines provided by the Property Management and Materiel Management Divisions in such areas as preventive maintenance programs, and the economics of replacement versus repairing, as well as advice on specific problems at the time they are preparing their estimates.

Aside from the posts, the only other expenditures in this standard object would be made by Central Services Division for repairs and maintenance at Headquarters. These would be entirely in the second group, and the Division should enjoy full autonomy in carrying out its function within the approved budget.

#### Utilities, Materials and Supplies

This standard object covers a variety of expenditures as indicated by the line and reporting objects shown on the previous exhibits.

The only items that might warrant a word of explanation are office supplies, the cost of which can only be distributed to responsibility centres if our recommendation in a later section of the report, concerning the use of a working capital advance to finance the departmental inventory of such supplies, is accepted.

#### Construction and Acquisition of Land, Buildings and Works

This standard object covers major capital expenditures for the acquisition of land, including landscaping, and the construction or acquisition of chanceries, official residences, staff quarters, and other buildings.

Although posts would become involved, on occasion, in negotiations on behalf of Headquarters during the construction and acquisition phases, and might be asked to make payments locally against contractors' progress claims under special banking arrangements, responsibility, authority and control should continue to rest with Property Management Division as described earlier in this section.

#### Acquisition of Machinery, Equipment and Furnishings

All expenditures of a capital nature, other than for the construction and acquisition of land, buildings and works, fall into this category. The major portion of the expenditures at present are divided between three headquarters responsibility centres in roughly the following fashion:

- Central Services Division for headquarters requirements
- Communications Branch for their own requirements
- Materiel Management Division for post requirements.

This category of expenditure includes the purchase of furnishings for chanceries and official residences, where major furnishing schemes for formal representational and reception areas can be required, and which would necessarily involve headquarters control and technical design expertise. On the other hand, by far the greatest proportion of expenditures on behalf of posts in this area is related to the routine replacement of furnishings, appliances and equipment for the chancery, official residence and staff quarters. Thus, it would appear that most acquisition activity under this standard object is subject to timing and priority decisions at the level of the individual responsibility centre.

We therefore recommend, as a general principle, that all "initial" purchases of such items be the responsibility of the Materiel Management Division and that all "replacements", whether of a single item or a complete decorating scheme, be made the responsibility of the individual posts. Initial purchases refers only to the furnishing and equipping of newly established posts and newly acquired premises at existing posts.

All acquisition activity would, of course, be guided by published policy statements and guidelines, product lifetime charts, standard item catalogues, scales of issue, etc. as developed by the Materiel Management Division. Similarly, as suggested previously, guidelines should be developed to resolve the recurring problem of local versus Canadian procurement.

Acquisition projects submitted in a post budget should either conform to established guidelines or should (if major) have been previously discussed with the appropriate administrative division. The budgetary review would, therefore, consist primarily of verifying the application of these guidelines, or referring the proposal to the appropriate administrative division for comment.

Either the pre-audit carried out by the Comptroller of the Treasury, or an internal audit carried out by the Department plus regular visits by Headquarters design staff, could provide a check on the activities of posts in this area. Another check could be built into the centralized inventory routine by comparing an annual listing of inventory acquisitions by responsibility centres to the capital budget previously approved for each centre. Also it could be made a part of Inspection Service's audit of posts abroad that all purchases over a certain amount would be reviewed.

The Central Services Division would have, for Headquarters requirements, the same responsibilities and autonomy as that suggested for posts, and Communications Branch would budget, as at present, for its own requirements. Materiel Management Division should, as suggested previously, be responsible for the acquisition of "initial" post equipment and furnishings requirements as well as all objects of art and motor vehicles.

#### Transfer Payments

Transfer payments cover expenditures for special purposes, such as grants to cultural groups, payments on behalf of distressed Canadians, ex-gratia payments, and miscellaneous grants and payments to the United Nations and its Agencies, Commonwealth Organizations and other International Commissions and Organizations.

All expenditures in this standard object are in Vote 15, with the exception of grants to the Canada Council and the National Research Council, which should continue to be controlled by the Cultural Division and the Communications and Information Systems Branch respectively, and payments on behalf of distressed Canadians which are normally made at posts against Headquarters authorities.

For the purpose of assistance to distressed Canadians, the Department has provision in estimates for an amount of \$25,000 in the form of a "net" allotment to which payments are charged and to which are credited reimbursements made during the same fiscal year in which the original assistance was given.

The Head of Post has authority to provide "interim assistance" (sufficient advance for meals and accommodation) until

approval for any additional assistance is received from the Department. This also applies in the case of "emergency assistance". No specific dollar limits of expenditure are set but each case is assessed on its merits.

No change is suggested in the present arrangement since adequate estimating and control can only be accomplished on a department-wide basis.

#### All Other Expenditures

This standard object covers a variety of miscellaneous expenditures. Most of these are of a financial nature, such as profit and loss on exchange, bank charges, and claims against the Crown, and should be budgeted for and controlled by the Finance Division.

At the same time, we believe that provision should be made in post budgets for a miscellaneous class of expenditures that can be most effectively controlled at that level. This would include such items as gratuities to trades people and local payments for Canadian dollar cheques.

Note: Report continues on page 6 - 45. There are no pages 6 - 39 to 6 - 44 in this draft.

### Financial Reporting

In this subsection of the report we describe the system of financial reporting which is now used in the Department, our assessment of it, and our proposals for an improved system which would provide the financial information needed by those responsible for managing departmental resources.

#### PRESENT SYSTEM

There are five types of financial reports presently in use in the Department.

##### 1. Post Financial Statement

Rather than a report in the true sense, this is a record of the post's financial transactions for the month. It is submitted to Headquarters monthly by each post on a schedule in which about one-quarter of the posts close their books on the fifteenth of the month and the remainder on the last working day. The statement with documentation attached is sent to Ottawa either by airmail or diplomatic bag.

##### 2. Allotment and Expenditure Statement

This statement reflects the actual amounts disbursed and encumbered for the year to date, against each departmental allotment. It is prepared monthly by the Chief Treasury Officer from the records he maintains for commitment control purposes. It is used by the senior financial officials of the Department to review unspent balances and unencumbered allotments.

### 3. Report of Expenditures

These reports are prepared by the Computer Division of the Comptroller of the Treasury. They show current month and year to date disbursements in a series of reports which can be preselected on the basis of any classification available in the expenditure coding block. For 1968-69 the Department will receive the following:

- (a) Vote Detail - totals by line object within each standard object within each parliamentary vote.
- (b) Division, by Post - totals by line object within each standard object within each post for each "spending division".
- (c) Project Tabulation - totals by line object within each standard object within each project for those divisions that utilize project control.
- (d) Division, by Standard Object - totals by line object within each standard object for each "spending division".
- (e) Post, by Standard Object - totals by line object within each standard object for each post.

### 4. Consolidated Financial Statement

This report was developed by the Finance Division in 1967 and introduced as the present survey began. For each "spending division" it discloses the total allotment (with adjustments), disbursements to date, and firm commitments, and compares the resulting free balance to the total planned expenditures for the balance of the year. Planned for monthly issue, the report has only appeared irregularly to date.

## 5. Special Reports

Certain divisions produce special reports from records maintained within the divisions. The reports are designed to meet specific information needs of divisional management. They range from cost studies of certain activities in a division to analyses of long-term commitments on projects.

### Assessment of the Present System

As would be expected, the present reporting system is oriented almost entirely to cash control rather than to management control.

The post account is simply an accounting input, and as such it provides no meaningful information to management either at the post or at Headquarters. Transactions are not grouped into useful totals or compared to any standard. The explanatory data support the propriety of expenditures relative to regulations rather than their managerial justification.

A number of factors combine to reduce the usefulness of the post account even as a source of expenditure information. Differences in cut-off dates and transmission times make it impossible to achieve any consistency in departmental reports that utilize post expenditure data. This problem is aggravated by the fact that assembling of vouchers, bank statements etc. at the post can delay the mailing of the post accounts for several weeks after the month-end. In addition, the coding of post expenditures is left to the staff of the Chief Treasury Officer who often raise queries which require answers from various Headquarters' divisions or from the post itself before the

accounts can be entered. The cumulative effect of these delays is that post expenditures for a given month may not be included in departmental reports until sixty or even ninety days later.

The Allotment and Expenditure Statement, the Reports of Expenditure, and the Consolidated Financial Statement incorporate data from the post account and thus suffer from its deficiencies. Additional inaccuracies are present in all of these reports as a result of inconsistent cut-off procedures for Headquarters spending units vis-a-vis the Chief Treasury Officer. In terms of format and content the Allotment and Expenditure Statement has no usefulness other than for cash control. The same is true of the series of Expenditure Reports, with the exception of the Project Tabulation which is meaningful to divisions using this basis for estimating and controlling expenditures.

The Consolidated Financial Statement shares the input inaccuracies described above, but represents a significant improvement over previous report formats. It is quite similar in many respects to the Budget Reports that we are suggesting should be provided to responsibility centres.

#### PROPOSED SYSTEM

Under the financial management system we are proposing in this report, the head of each responsibility centre would need a report which would enable him to see the effect of unforeseen expenditures and of costs which had risen since the budget was prepared. On the basis of this information, he could then take the appropriate action, such as foregoing some projects, revising their scope, economizing elsewhere in

his budget or requesting additional funds. Equally important, the head would be reminded of projects not yet started. If they were still desirable, he could see that they were initiated. If they were no longer required, or were not capable of completion in the current year, he could free the funds for other uses within his unit or for transfer to another responsibility centre.

The Area Comptroller would form the second level of responsibility for control over post expenditures, and should receive reports covering the posts within the geographical area(s) for which he is responsible, both on an individual and a consolidated basis. Copies of these reports would also go to the Heads of the Area Divisions for information purposes.

The Area Comptroller would examine the progress of the post on its planned projects, examine the implications of unforeseen events, assess the seriousness of potential overspending or lapsing of funds and the reasonableness of the explanations for variances, and advise the post on corrective measures as required.

Assistant Under-Secretaries responsible for a group of functional spending divisions, as well as the Directors-General on the administrative side, would have corresponding information requirements with respect to the responsibility centres within their respective jurisdictions. Similarly the Under-Secretary would require this information on a consolidated basis for the Department as a whole.

In the paragraphs that follow, we describe the proposed format and timing of these reports, the reporting structure, how the reports would be prepared, and the sources of the information to be presented in the reports.

Before doing so, however, it might be worthwhile to outline some of the more important criteria that were used in the design and evaluation of these reports, and that should be used from time to time for re-evaluating all reports. These criteria are as follows:

- (a) Usefulness - Reports and copies of reports should only be provided to those who have a definite need for the information in them.
- (b) Timeliness - Reports should contain information that is sufficiently current, and should reach the recipient in sufficient time, for any corrective action to be taken that may be needed.
- (c) Frequency - There is an optimum interval at which each report should be prepared - which often represents a compromise between the usefulness of the information in the report and the cost of providing it.
- (d) Simplicity - Reports should be clear and concise and should not contain any extraneous detail.
- (e) Brevity - Reports should be prepared in a fashion that will summarize or highlight important information for the reader who does not have time to go through the whole report.
- (f) Comparative Data - Reports should normally include comparative data against which current information can be measured.



### The Budget Report

Budget Report is the name we are suggesting should be used for the series of reports that would form the central structure of the financial reporting system we are proposing for the Department. The Budget Report series would be prepared each month by computer in the Data Processing Division of the Comptroller of the Treasury. The subject matter of the report would be the appropriations in Vote 1 and Vote 10 only. It is in these votes that the requirement for financial management is greatest. The less rigorous requirements of Vote 15 can be met by special reports which are described subsequently.

#### 1. Format of the Budget Report

Exhibit 6-4 facing this page illustrates the format we are suggesting for these reports as well as the method of progressive consolidation from the level of individual responsibility centres up to the departmental statement for the Under-Secretary. Since managers at each level need essentially the same kind of information, column headings are identical on all reports.

Columns 1, 2 and 3 show the amount budgeted for each reporting object, the net of transfers in and out of the budget for that object in the year to date, and the adjusted budget. Column 4 is the actual cash disbursement for the fiscal year to date. Column 5 includes any outstanding obligations plus the expenditures that are planned for the remainder of the fiscal year. Column 6, by addition of columns 4 and 5, indicates the probable or projected amount of the total expenditures for the year.

Column 7 shows the amount by which the projected expenditure for the year exceeds or falls short of budget. This variance is expressed as a percentage of budget in Column 8. Items showing a variance over a given percentage figure would require a brief explanation and a note as to what corrective action, if any, was planned.

Column 9, in which Firm Commitments would be shown for the last three months of the fiscal year, is included for purposes of departmental cash control. The way in which this information would be developed and used for this purpose is discussed later in this section. In addition, the Firm Commitments figure could provide a useful check on the planned expenditure figure in Column 5. The head of a responsibility centre would expect the amounts in Column 5 to approach equality with those in Column 9 in the final months of the year. To the extent that a significant gap existed between the two, he would be led to question the validity of the spending plans reported.

The requirements of managers at all levels for the same kind of information is met by the identical column content used in the Budget Reports. The line titles, it will be noticed however, are more inclusive at each succeeding level of management. They indicate what segment of the operation is being reported upon, and thus are a function of the progressively broader responsibilities of middle and senior management.

For each recipient, therefore, this report would highlight problem areas requiring action by him and would clearly establish the accountable subordinate in each case. The more senior levels of management would still be able to study specific aspects of a subordinate's

reports in greater detail if required, since their Budget Reports would actually be a set of reports. The top one would be the summary, and it would be backed up by the individual reports covering the next lower level of responsibility.

## 2. Period Covered by the Budget Report

Reports presently prepared by the Comptroller of the Treasury cover a monthly period that ends several days before the end of the calendar month. While this has not created any major problems to date, because of the inaccuracies and inconsistencies in the data referred to previously, and because of the limited use to which the data is put, we believe it would be preferable to report expenditures on a calendar month basis, if at all possible.

While this is not a major requirement of the financial management system we are proposing, it would avoid the necessity of setting up and reversing any accruals at month-end, and would make it easier to estimate and control those expenses, like rents and utilities, that are normally calculated on a calendar month basis.

This problem was discussed with representatives of the Comptroller of the Treasury, who assured us that this was being done for other government departments and there should be no difficulty in doing it for the Department of External Affairs.

## 3. The Reporting Structure

The structural make up of the Budget Report series must reflect the actual financial management hierarchy in the Department with respect to Votes 1 and 10. Exhibit 6-5 on the opposite page is

a diagrammatic representation of the reporting structure that would be required.

There are three main levels of responsibility represented. At the bottom of the chart is the basic level - the responsibility centre. The second main level on the chart is what will be referred to as the branch level, and at the top is the overall departmental responsibility represented by the Under-Secretary. The exhibit contains two departures from this three level reporting pattern. On the right side of the diagram, posts are consolidated by area division before being grouped, at the branch level, into an inclusive statement for all "Administration Abroad". The second departure, the case of the Assistant Under-Secretary (Administration) is not meant to represent an additional degree of consolidation in the Budget Report and requires further explanation.

The branch level will be seen to consist of the apexes of five separate pyramids or responsibility groups. The five primary allotments into which we are proposing that Vote 1 should be broken down (discussed later in this section under the heading Cash Control) correspond to these responsibility groups, thus laying the foundation for decentralized financial management and delegated spending authority. The functional spending divisions, with their program oriented expenditures would be coordinated by the appropriate Assistant Under-Secretary who would receive branch level reports. Since the three administrative branches are the direct responsibility of the Assistant Under-Secretary (Administration), this would suggest that he should receive a consolidated report of their results.

On the other hand, the administrative support costs of the posts are controlled by the Area Comptrollers under the supervision of the Director-General, Finance and Administration. Thus, this budget also becomes the responsibility of the Assistant Under-Secretary (Administration). If a consolidated report were prepared of all the responsibilities of the Assistant Under-Secretary (Administration) it would therefore contain all of the Vote 1 and Vote 10 appropriations except those of the functional divisions. It would be almost as comprehensive as the report to the Under-Secretary.

These practical considerations suggest the following distribution of the action copies of the Budget Reports.

- (a) Head of Responsibility Centre - Budget Report for his unit
- (b) Assistant Under-Secretary - Consolidated reports for their divisions
- (c) Branch Director-General - Consolidated report for his branch
- (d) Area Comptroller - Consolidated reports for each area in his jurisdiction
- (e) Director-General Finance-Administration - Consolidated report for "Administration Abroad"
- (f) Assistant Under-Secretary (Administration) and Under-Secretary - Departmental consolidated report supported by all five branch level reports

In this distribution the Assistant Under-Secretary (Administration) would receive reports covering the functional divisions even though he does not have a direct responsibility for their financial operations. However, he is expected to provide financial and administrative guidance to both the Under-Secretary and the other Assistant Under-Secretaries.

In this role it would certainly be appropriate for him to receive the consolidated Budget Report for the whole Department rather than just a section of it.

#### 4. Sources of Information in the Budget Report

All data shown in the budget reports would be forwarded to the Comptroller of the Treasury and processed by his staff through the use of his computer facilities. The main elements of input are outlined here in order of the column heads in the report format.

The details of responsibility centre budgets would be fed in at the beginning of the fiscal year by way of a letter from the Finance Division to the Chief Treasury Officer. Adjustments to allotments would be originated by the responsibility centre in the form of a journal voucher, approved if necessary by higher authority, and transmitted from the branch level via the Finance Division to the Chief Treasury Officer. The computer itself would carry out the necessary calculations cumulatively.

Actual expenditures for Headquarters divisions would be accumulated by the computer centre in the normal course of invoice processing and cheque issue. Posts would close their books at month-end and prepare their Supplementary Budget Reports. By the third of the following month each post would send a telex transmission to Ottawa for computer input reporting their current month expenditures and planned expenditures to the end of the year.

Each responsibility centre in Headquarters would also calculate its planned expenditures. For this purpose it would continuously update its estimates worksheets to reflect changes in

**DEPARTMENT OF EXTERNAL AFFAIRS**  
**PROPOSED FORMAT OF SUPPLEMENTARY BUDGET REPORT**

SUPPLEMENTARY BUDGET REPORT												
POST ..... SHANGRI-LA .....		MONTH OF ..... JANUARY .....										
STANDARD OBJECT REPORTING OBJECT	CODE	ORIGINAL BUDGET (1)	BUDGET TRANSFERS (2)	ADJUSTED BUDGET (COL. 1 PLUS COL. 2) (3)	EXPENDITURES TO PRIOR MONTH END (4)	EXPENDITURES FOR MONTH (5)	EXPENDITURES TO DATE (COL. 4 PLUS COL. 5) (6)	PLANNED EXPENDITURES (7)	PROJECTED TOTAL EXPENDITURES (COL. 6 PLUS COL. 7) (8)	VARIANCE		FIRM COMMITMENTS (LAST 3 MONTHS ONLY) (9)
										AMOUNT (COL. 8 LESS COL. 7) (10)	PERCENTAGE (COL. 9 OF COL. 8) (11)	
SALARIES & WAGES - LOCAL	0101	80,000	-	80,000	60,160	6,986	67,146	12,694	79,840	160	0.2	12,240
DIRECT REPRESENTATION ALLOWANCE	0102	26,000	-	26,000	24,006	2,008	26,014	4,773	30,787	(4,787)	(18.0)	3,825
PERSONNEL COSTS		106,000	-	106,000	84,166	8,994	93,160	17,467	110,627	(4,627)	(4.4)	16,065
TRAVEL & TRANSPORTATION	0203	10,000	-	10,000	7,969	701	8,670	1,512	10,182	(182)	(1.8)	-
COMMUNICATION	0204	40,000	10,000	50,000	40,101	3,978	44,079	7,914	51,993	(1,993)	(4.0)	7,465
TRANSPORTATION & COMMUNICATION		50,000	10,000	60,000	48,070	4,679	52,749	9,426	62,175	(2,175)	(3.6)	7,465
INFORMATION	0305	20,000	(5,000)	15,000	11,894	-	11,894	1,100	12,994	2,006	13.4	985
PROFESSIONAL & SPECIAL SERVICES	0406	30,000	-	30,000	22,867	2,014	24,881	4,130	29,011	989	3.3	3,175
RENTAL - BUILDINGS	0507	120,000	-	120,000	90,000	10,000	100,000	20,000	120,000	-	-	20,000
RENTAL - EQUIPMENT	0508	300	50	350	237	31	268	52	320	30	8.6	38
RENTAL		120,300	50	120,350	90,237	10,031	100,268	20,052	120,320	30	-	20,038
REPAIRS & UPKEEP - CHANCERY	0609	15,000	-	15,000	11,842	1,032	12,874	1,210	14,084	916	6.1	600
REPAIRS & UPKEEP - OFFICIAL RESIDENCE	0610	10,000	-	10,000	9,793	-	9,793	-	9,793	207	2.1	-
REPAIRS & UPKEEP - STAFF QUARTERS	0611	30,000	10,000	40,000	19,863	20,017	39,880	2,301	42,181	(2,181)	(5.5)	1,570
REPAIRS & UPKEEP - OTHER	0612	10,000	(5,000)	5,000	3,516	495	4,011	474	4,485	515	10.3	-
REPAIRS & UPKEEP		65,000	5,000	70,000	45,014	21,544	66,558	3,985	70,543	(543)	(0.8)	2,170
UTILITIES	0713	12,000	1,000	13,000	9,359	1,210	10,569	2,415	12,984	16	0.1	1,985
MATERIAL & SUPPLIES	0714	20,000	(6,000)	14,000	9,112	992	10,104	868	10,972	3,028	21.6	465
UTILITIES, MATERIAL & SUPPLIES		32,000	(5,000)	27,000	18,471	2,202	20,673	3,283	23,956	3,044	11.3	2,450
ALL OTHER EXPENDITURES	1215	1,000	-	1,000	560	89	649	110	759	241	24.1	-
TOTAL VOTE 1 - ADMINISTRATION		424,300	5,050	429,350	321,279	49,553	370,832	59,553	430,385	(1,035)	-	52,346
VOTE 10 - CAPITAL	0916	80,000	20,000	100,000	110,000	-	109,846	-	109,846	(9,846)	(9.8)	-

costs and plans. The planned expenditure total required each month could then be calculated readily from the adjusted worksheets themselves. It would be sent to the Finance Division by the fifth of the month for forwarding to the computer centre.

In the latter part of the year, the Headquarters' divisions would prepare and forward their commitment data in the same way. We are suggesting however, that post commitment information should not be included in the Budget Report. Our reasons for suggesting this, and the alternative approach that we suggest should be used to develop this information, are discussed later in this section.

#### Supplementary Budget Report

Because of the time required for documents to travel to and from some of the more remote posts, it would not be possible to use the approach envisaged for Headquarters responsibility centres who would receive their Budget Reports between the 15th and 20th of each month and would immediately prepare their commentaries and explanations of variances for higher authorities. If we assumed a two week transmission time for some posts, Area Comptrollers and others concerned with post operations would not receive the post budget commentaries for at least another month.

To get around this problem, we are suggesting that each post should prepare a Supplementary Budget Report. The format proposed for this report is illustrated in Exhibit 6-6 facing this page.

It can be seen that this report is simply the Budget Report of the prior month updated to reflect transactions at the post

in the current month. Thus its preparation would not require a great deal of additional work by administrative personnel at the post.

The column headings in the Supplementary Budget Report are identical to those in the regular Budget Report except for Columns 4 and 5. These columns have been added to provide the updating for the current month which was mentioned above. The addition of the current month's expenditures (Column 5) to the prior month's year to date expenditures (Column 4) would provide the current expenditures to date figure in Column 6.

The step-by-step month-end procedure at a typical post would be as follows, using June 30 as an example:

June 25 (say) - The May Budget Report is received from Headquarters and placed on file.

June 30 - The books are closed and the post account is summarized and balanced. As described in the section on accounting systems, the new format of the post account provides columns for each of the sixteen reporting objects in the post budget. At month-end it is only necessary to total the sixteen columns and convert to Canadian dollars.

July 2 - The Supplementary Budget Report is prepared. It contains sixteen lines for the sixteen budget objects. Columns 1, 2, 3 and 4 are copied directly from the May Budget Report. Column 5 is completed by entering the appropriate totals from the post account. Column 6 is a manual calculation. Column 7 is completed by calculating

planned expenditures from the estimates worksheets which are maintained and updated as described for Headquarters' divisions. Columns 8, 9 and 10 are simple manual calculations and Column 11, in the last three months of the year, is obtained by taking an adding machine tape of the open purchase order and expenditure authority files and adding to this any other contractual obligations and regular recurring monthly expenditures that are likely to result in a disbursement of funds before the end of the fiscal year.

July 3

- (a) Two copies of the post account are mailed to Finance Division.
- (b) A telex transmission is made to Headquarters reporting the post's current month's expenditures and its planned expenditures for each of the sixteen reporting objects. These figures are taken directly from the Supplementary Budget Report, Columns 5 and 7.
- (c) The Head of Post reviews the Supplementary Budget Report with the post Administrative Officer and decides on what action to take as a result of the figures shown in the report.

July 6

- One copy of the Supplementary Budget Report is mailed to the Area Comptroller accompanied by a memorandum commenting on variances and including journal vouchers covering any recommended budget transfers.

Thus, the use of a Supplementary Budget Report would provide the needed control information to the Head of Post at the point in time when remedial action would be most effective. For the Area Comptroller it would provide explanations of variances in equally timely fashion. By utilizing the prior month's Budget Report and the current month's post account as information sources, the workload of preparing the Supplementary report would be kept to a minimum.

#### Special Reports

The main reporting structure envisaged for the Department, under the system of financial management we are proposing, would consist of the Budget Report and the Supplementary Budget Report. We believe these reports would provide the information needed for both budgetary control and cash control purposes. There are a number of additional reports, however, that are needed to meet requirements for special purpose information in various areas of the Department. The more important of these are discussed below, with the reporting system proposed for each.

##### 1. Vote 15

This vote appropriates funds for assessments, grants and other payments to international organizations and international multilateral programs and special aid programs as detailed in the Estimates. Earlier in this section we described the special characteristics of financial control as it applies to Vote 15, and we suggested that any records and reports required in connection with this vote be made the responsibility of the Finance Division. We believe that a report issued at the end of the sixth, ninth and

twelfth months of the fiscal year would be adequate for purposes of keeping the divisions concerned with payments under this vote informed.

This report could use the same general format as that proposed for the Budget Reports, with one line for each item detailed in the Estimates. Planned Expenditures would consist of amounts for which payment calls were expected but had not yet been received. Column 9 (Firm Commitments) could, in this case, be used to record the expected payment date for items shown as planned expenditures.

The report would advise divisions of the status of each item in the vote and would give them an opportunity to follow up on any item in which there appeared to be a delay or other problem. As mentioned earlier, Defence Liaison (1) Division may have special information requirements which Finance Division should study and accommodate.

## 2. Representation at International Conferences

Also as discussed earlier in this section, the budget for international conferences has special financial control characteristics and requires treatment similar to that recommended for Vote 15.

The funds provided for this purpose would be placed in the budget of the Finance Division as an administrative convenience to the substantive divisions concerned. However, control over the use of these funds would remain in the substantive divisions since they actually plan the nature and extent of Canadian participation in each conference, including the slate of delegates. They must be aware of the financial implications of their plans, particularly

**DEPARTMENT OF EXTERNAL AFFAIRS  
PASSPORT DIVISION  
STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED MARCH 31**

	ISSUE OF ORDINARY PASSPORTS	RENEWAL OF ORDINARY PASSPORTS	ISSUE & RENEWAL OF CERTIFICATES OF IDENTITY	ISSUE OF DIPLOMATIC & SPECIAL PASSPORTS	RENEWAL OF DIPLOMATIC & SPECIAL PASSPORTS	TOTAL
INCOME	1,338,729	108,959	11,612	19,420	4,974	1,483,694
EXPENSES						
PERSONNEL	649,596	56,312	6,414	8,416	2,874	723,612
TRANSPORTATION & COMMUNICATIONS	141,064	12,316	1,201	1,420	320	156,321
PROFESSIONAL & SPECIAL SERVICES	560	-	-	-	-	560
PURCHASED REPAIR & UPKEEP	1,500	-	-	178	-	1,678
UTILITIES, MATERIALS & SUPPLIES	223,548	17,302	1,912	2,473	879	246,114
OTHER EXPENSES	1,403	490	90	210	-	2,193
TOTAL EXPENSES	1,017,671	86,420	9,617	12,697	4,073	1,130,478
NET INCOME TRANSFERRED TO NON-TAX REVENUE	321,058	22,539	1,995	6,723	901	353,216
COMMON SERVICE COSTS						
ACCOMMODATION	92,000	7,500	1,500	2,300	700	104,000
ACCOUNTING SERVICES	108,080	8,640	930	1,550	400	119,600
DEPRECIATION, FURNITURE & EQUIPMENT	2,640	260	30	50	20	3,000
EMPLOYEES' FRINGE BENEFITS COSTS	32,978	2,815	321	420	144	36,678
FRANKED MAIL	68,540	5,460	560	980	260	75,800
INTEREST CHARGES	11,035	852	100	160	60	12,207
TOTAL COMMON SERVICE COSTS	315,273	25,527	3,441	5,460	1,584	351,285
NET INCOME (EXPENSE)	5,785	(2,988)	(1,446)	1,263	(683)	1,931

insofar as plan changes are concerned, and they must make the decisions on reallocations of funds which are inevitably required during the year.

We suggest, therefore, that the Finance Division should prepare a monthly statement covering this item of expenditure, using the format of the Budget Report, and should circulate this statement to all divisions concerned.

### 3. Headquarters Travel

Almost all Headquarters' divisions incur travelling expenses in carrying out their assigned tasks. In some cases, this is their only direct involvement in financial matters. As suggested previously, we believe that responsibility for travel funds alone is not sufficient justification for a division to be designated as a responsibility centre, with the accounting and reporting requirements which this would involve. It was proposed, therefore, that the travel budgets for all divisions not otherwise designated as responsibility centres should be consolidated in a single departmental travel allotment administered by the Finance Division.

So that individual divisions can assess their travel plans in the context of available funds, we suggest that Finance Division issue a monthly report to all divisions concerned, reporting for each, the budget originally approved for that division, expenditures to date and the balance remaining.

#### 3(a) Passport Division

As a result of an earlier study of the operations of the Passport Division, it was recommended that these operations should be financed through the use of a working capital advance. If this recommendation, (with which we are in agreement) is adopted, it will mean that a special report will be required to show both the revenues and expenditures associated with the operations of this division. An illustration of how such a report might look is set out in Exhibit 6A facing this page.

#### 4. Subsidiary Statements

One of our objectives in designing the proposed reporting system has been to reduce and, where possible, eliminate detailed record keeping by the individual responsibility centre. However, responsibility centres need a record of expenditures that they have made, and particularly of expenditures that have been made on their behalf by other centres. Only in this way can they know the make-up of the totals appearing in the Budget Reports - to assist them in explaining variances, to tell them what has been spent against expenditure authorities they have issued, to enable them to satisfy themselves and their creditors that a cheque actually was issued in payment of a given account, and to reveal any expenditures that may have been improperly charged against their budgets.

To provide such a record for Headquarters' divisions, it is proposed that a Subsidiary Statement should be produced on the computer as a by-product of the Budget Report for each division. The Subsidiary Statement would show the individual transactions making up the total for each reporting object in the budget of the division under column headings as follows:

- (a) Source of entry (supplier, journal entry, post account, etc.)
- (b) Expenditure code
- (c) Amount

Maintained on file, the monthly statements would provide a complete record of the year's transactions.

The first use for the statement, immediately it is received, would be to update the file of open purchase orders and expenditure authorities. The statement would show what payments had

been made against these purchase orders and authorities, which could then be transferred to a 'paid' file, or the amounts entered on them if there were still charges to come. This would enable the responsibility centres to eliminate these items when the next calculation was made of planned expenditures.

The Subsidiary Statement provided to posts served by a District Treasury Office would be identical to that described above. All other posts, however, already possess a record of the expenditures they have made, in the form of the post account itself. In these cases, the Subsidiary Statement sent to the post would include only those transactions that represent disbursements made at Headquarters on behalf of the post and charged to the post budget, plus the details of all adjusting journal entries etc. Posts, like Headquarters' divisions, would use the Subsidiary Statement for reconciliation purposes and particularly for updating their file of open expenditure authorities.

##### 5. Country Cost Reports

For program planning generally, and in particular for the evaluation of priorities during the Program Review, the Department needs to know, to the maximum extent practicable, the cost of its activities in each of the countries in which it is represented.

As discussed later in this section, provision for such a breakdown has been made by including an "allocation" field in the proposed coding block. Costs related to a specific country typically consist of the budget of the post itself plus expenditures under the budgets of various Headquarters' divisions. It is suggested that the

"allocation" coding should be used on both kinds of expenditure to identify the specific country. The computer would accumulate costs by "allocation centre" each month and store the cumulative totals on tape.

Reports of total costs by country could then be produced on request any time during a year and at the end of the year. The coding provision is such that these country reports could be produced in as much or as little detail as desired. The exact format of each country cost report should be determined by the particular planning requirement giving rise to it.

#### Technical Considerations

There would be a number of technical problems to be overcome in introducing the proposed reporting system, particularly in producing monthly reports by the required deadline while maintaining the accuracy and internal consistency of the data. The most important problems arise in obtaining a consistent cut-off point each month so that all responsibility centres report comparable data, and so that items are not double-counted (e.g. both as actual expenditures and as planned expenditures). These problems are discussed below for the two principal types of responsibility centres - Headquarters' divisions and posts.

##### 1. Headquarters' Divisions

One of the possibilities for overcoming the problems arising out of the cut-off requirements of the Chief Treasury Officer and the Computer Centre, and for preparing the Budget Report on a calendar month basis as suggested earlier, is the use of a duplicate set of transaction (punched) cards.

Under this arrangement, the punched cards that are presently produced by the Comptroller of the Treasury for cheque issue and expenditure reporting purposes would be produced in duplicate, with one set being used for a calendar month run for departmental purposes and the other for the internal requirements of the Comptroller. If this arrangement is feasible, the following procedures would apply to the processing of invoices by Headquarters' divisions.

All invoices, vouchers and other accounting documents pertaining to a given month (to be included in the Budget Report for that month) that were ready for processing before the end of the last working day in the month, would be stamped with the name of the month in which they were to be included. The stamp would be changed on the first day of the new month. Any vouchers on hand and not processed by the end of the month would be included in the "planned expenditures" figure for Budget Report purposes.

All vouchers would be processed as usual by the Chief Treasury Officer and the Computer Centre, except that the "calendar month deck" would be kept open to the tenth of the ensuing month, in order to include in the computer run all items bearing the stamp of the previous month.

For Headquarters' divisions, one other potential problem area relates to outstanding Expenditure Authorities. Divisions issue these authorities to posts from time to time as an authorization for the post to undertake certain disbursements and charge them against the budget of the issuing division. At month-end, the "balances"

remaining in such expenditure authorities that have not been spent, or where the division concerned has not been officially notified by the Supplementary Statement described earlier that some or all of the authority has been spent, would be counted as "planned expenditures" by the Division. However, the report of expenditures that we are suggesting should be telexed by each post at the end of each month might contain additional disbursements against one of these authorities. If these were incorporated into the Budget Report as an actual expenditure, when the Headquarters division that had issued the Expenditure Authority had also included them as a "planned expenditure", double counting would result. We therefore suggest the following rules should be built into the program for processing these items on the computer.

- (a) Do not include post expenditures on behalf of the Headquarters divisions in the Budget Reports for the month to which they apply (say June expenditures telexed on July 3rd).
- (b) Include them, however, in the Supplementary Statement covering June expenditures furnished to the Headquarters divisions in July, so that these divisions can adjust their outstanding authority files accordingly, and thus the "planned expenditure" figure they will be reporting at the end of July.
- (c) Enter them as an expenditure of the Headquarters division, by journal entry, in the month following that to which they apply. In this case, they would be entered in the month of July so that they would be included in the "expenditures to date" column of the Budget Reports for the divisions concerned that cover July expenditures and are issued in August. As

noted in (b), by the end of July these expenditures would have been excluded from the "planned expenditure" figures of the divisions concerned, so that there would be no danger of them being counted twice.

2. Posts

The problem of mailing delays for post accounts would be overcome by the transmission of expenditure data to Ottawa via telex, and by having all posts close their accounts on the last working day of the month.

The information would be received in Ottawa in the form of a printed sheet and punched tape. All tapes would be checked for transmission accuracy. When all posts had reported and had been verified, the tapes would be consolidated and the first printout would be used as a basis for the credit to the revolving fund and the charge against the appropriation.

Then the Budget Reports and Subsidiary Statements would be produced. Later the individual post accounts would be received by mail and subjected to the normal audit by the Chief Treasury Officer. Errors would be corrected by adjusting journal entries to revise the accumulated expenditure totals in the computer memory.

Posts, in common with Headquarters' divisions, may issue Expenditure Authorities from time to time which could also result in double counting. However, the problem would not be as acute in the posts as it would be at Headquarters, since the post would use the Supplementary Budget Reports for budgetary control and variance analysis purposes. The Budget Reports sent to the posts

would be used primarily as a starting point for the next month's Supplementary Budget Report. By the time they came to use the figures from the Budget Reports, the posts would have received the detailed transaction run (the Supplementary Statement) and would have adjusted their outstanding authority files and "planned expenditure" figures accordingly. Thus, there is little danger that, if Headquarters expenditures on behalf of posts are included in the post Budget Reports, they would also be included in the post's "planned expenditure" figures.

At the same time, since the "planned expenditure" figures telexed to Headquarters by the posts at the end of each month would not have been adjusted to reflect any Headquarters expenditures on behalf of the posts during that month, but since these expenditures would have automatically been included in the data from which the computer would prepare the Budget Reports, provision must be made for excluding them again in any consolidations of post Budget Reports for higher levels of authority. This can be accomplished by adopting the following rules for processing post data on the computer:

- (a) For the Budget Report to the post, include all transactions charged to it regardless of source.
- (b) For all consolidations of Budget Reports involving post figures, exclude disbursements made at Headquarters chargeable against a post's budget.
- (c) The accumulated expenditure figures to be used for the following month's Budget Report should be taken from (a).

We regret that we were not able, in the time at our disposal, to devise a simpler procedure for dealing with this problem. We suggest that further study should be given to it during the implementation phase in the hope that such a procedure can be found.

#### Cash Control

The term "cash control" as used in this report refers to the accounting and reporting mechanisms that are used by both the Department and the central agencies to ensure that departmental appropriations are not overspent, and by the Department to minimize the possibility of funds "lapsing". The term "lapsing" refers to the situation where funds made available to the Department cannot be used in the year for which they were provided, and are lost to the Department since they cannot be carried forward to the subsequent fiscal year.

With the introduction of a formal system of budgetary control, cash control assumes a secondary although still distinct role in departmental financial management. There remains a statutory responsibility not to overspend departmental appropriations. If the Treasury Board were willing to adopt a less restrictive form of primary allotment control than exists at present, along the lines suggested later in this section, cash control within the Department would be greatly simplified, and would be of concern primarily in the last few months of the year.

In the following pages, after a brief description and assessment of the present system, we describe the cash control mechanisms that we believe would meet the Department's needs in this respect.

PRESENT SYSTEM

The primary orientation of the present system of financial management in the Department is to cash control. Since this system has been described in terms of its various components in other parts of the report, we will not attempt to recapitulate here, other than to outline very briefly the role of the various bodies that are involved in the control of departmental expenditures.

1. Parliament - controls by vote. The Department receives an appropriation for each of several votes, and expenditures must not exceed the funds provided in each - unless additional funds are provided through Supplementary Estimates.
2. Treasury Board - controls by primary allotment. The main subdivisions of each code vote form the primary allotments. Funds provided within any given allotment cannot be overspent without the approval of Treasury Board for a transfer of funds from some other allotment within the same vote.
3. Comptroller of the Treasury - controls by commitments. The Chief Treasury Officer serving the Department will not approve items for payment unless funds have previously been encumbered for the purpose. The device used by the Department to do so is called a Financial Encumbrance. These, in effect, form subdivisions within the primary allotment.

4. The Department - controls through the use of Financial Encumbrances within each allotment to create subdivisions for certain spending divisions in the Department and for many specific purposes within these divisions. The Allotment and Expenditure statement issued monthly by the Chief Treasury Officer reports the status of these sub-allotments, as do the detailed Expenditure Statements prepared by the computer centre.

The present system is intentionally restrictive, but has served its purpose of preventing the overspending of allotments. Its negative effects on operating management have already been described.

#### PROPOSED SYSTEM

Under the system of financial management we are proposing, effective cash control can be exercised without seriously inhibiting the operating freedom of responsibility centre heads provided the following two conditions are fulfilled:

- (1) The primary basis of control corresponds to the responsibility accounting structure.
- (2) The reporting system provides prompt and accurate information to each head regarding the status of the budget for his responsibility centre or responsibility group. The principle here is that if each segment of the budget is under control, the budget as a whole is under control.

We believe that the reporting system proposed earlier in this section would be capable of meeting the second condition. The

PROPOSED PRIMARY ALLOTMENTS

	<u>Allotment Name</u>	<u>Responsibility Group</u>
VOTE 1:		
1.	Personnel Administration	Personnel Branch
2.	Communications	Communications Branch
3.	Headquarters' administration	Finance and Administration Branch
4.	Administration abroad	Finance and Administration Branch
5.	Program direct costs	Assistant Under-Secretary (Functions)
VOTE 10:		
6.	Acquisition of land and buildings	Finance and Administration Branch
7.	Other capital	Assistant Under-Secretary (Administration)
VOTE 15:		
8.	Grants, assessments, etc.	Finance and Administration Branch

suggestions contained in the following pages are designed to meet the first.

#### Control by Parliament

The current vote structure of the Department conforms to Government-wide practice and we would not anticipate any change in it. This vote structure is as follows:

<u>Vote Number</u>	<u>Name</u>
(S)	Statutory items
1	Administration, Operation and Maintenance
10	Construction, Acquisition or Improvement of Buildings, Works, Land and Equipment
15	Assessments, Grants, Contributions and other payments to International Organizations and International Multilateral Economic and Special Aid Programs.

#### Control by Treasury Board

The Treasury Board, governed by the Financial Administration Act, is required to exercise control on the basis of (Section 29) "a division of the appropriation ... into allotments in the form detailed in the estimates submitted to Parliament for such appropriation ..., or in such other form as the Board may prescribe". At present, this division is based on standard objects of expenditure.

We recommend that, in order to bring the basis of control into line with the proposed responsibility structure, the primary allotments should be as shown in Exhibit 6-8 on the opposite page. The breakdown of the votes in this manner would clearly associate

the control of each allotment with the responsibility span of a single organizational unit. The head of each responsibility group would be responsible for his allotment(s) in terms of overspending and lapsing, and the proposed reporting system would provide the information he needs to discharge this responsibility. Within the limits of such allotments, maximum authority delegation would be feasible because there would no longer be a conflict between the management control and the cash control structures.

Control by the Comptroller of the Treasury

The commitment control to be exercised by the Comptroller is described in Section 30 of the Financial Administration Act as follows.

- "(a) No contract providing for the payment of any money by Her Majesty shall be entered into or have any force and effect unless the Comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation ...
- (b) Every contract involving the payment of money by Her Majesty shall be submitted to the Controller as soon as it is made or entered into ...
- (c) The Comptroller shall establish and maintain a record of all commitments chargeable to each appropriation."

The practice which has evolved for complying with the above consists essentially of making blanket encumbrances for large classes of day-to-day expenditures, as specified by the Department, and restricting specific commitment action to individual contracts involving very significant dollar values.

Under the proposed financial management structure we would suggest no change in the treatment of individual large contracts. However, in accordance with the overall re-alignment of cash control with responsibility groupings, there should be a great reduction in the number of blanket commitments (Financial Encumbrances) needed.

In Vote 1, a single encumbrance should be raised for the total amount of each of the primary allotments, except in the case where more than one Treasury Office is to be involved in disbursements. Thus, the Communications Branch might encumber a small portion of its allotment for expected disbursements at the District Treasury Offices abroad, and issue a single encumbrance for the balance. Similarly the allotment for Administration Abroad would be divided between four small encumbrances to cover local disbursements at the four District Treasury Offices abroad and a single encumbrance for the balance. Normally any other Headquarters' responsibility centre desiring to make a disbursement through a District Treasury Office would issue a specific Expenditure Authority for the purpose and have it certified by the departmental Chief Treasury Officer. Any division foreseeing recurring requirements of this kind would, of course, be free to issue an appropriate blanket encumbrance.

In Vote 10, the situation would be only slightly different. The allotment shown as 6 on Exhibit 6-8 would be entirely in the Property Management Division but would probably involve numerous large individual contracts. The Division should issue a single blanket encumbrance for all expected spending not in this category. Allotment number 7 would consist of requirements by several responsibility groups.

It should be encumbered accordingly; for example, one encumbrance for each of Communications Branch, Finance and Administration Branch and the posts (in total).

The encumbrance of funds in Vote 15 could continue to be handled as at present.

Control by the Department

We believe the system of reviews, budget commentaries, and consolidated reports outlined previously in this section, if used properly and conscientiously, would provide a satisfactory means of coping with the cash control problems of overspending and lapsing. As part of this system we have provided for the keeping of commitment control records (files) in each responsibility centre and the reporting of a "Firm Commitments" figure in each of the last three months of the year.

We believe these figures would provide a check on whether "planned expenditure" figures were realistic or not. They would also indicate those areas from which uncommitted funds could be withdrawn, if absolutely necessary, in order to meet an urgent need for funds in some other centre. Their primary purpose, however, would still be to provide a means whereby each responsibility centre could ensure that it did not overspend the funds provided to it.

The term "commitment" is used in various ways in the government. For the purposes described in these paragraphs it can be defined as all contractual obligations such as leases and outstanding purchase orders, outstanding Expenditure Authorities, and all recurring types of expenditures that it is known will have to be paid regularly

during the remainder of the year such as salaries, utilities, etc. When the qualifying word "firm" is added, it means that only those commitments that are likely to result in a disbursement of funds before the end of the fiscal year should be included.

During the last three or four months of the year, each centre should maintain a running balance of the funds remaining in its budget after deducting expenditures, to date plus firm commitments for the remainder of the year. A separate balance would be maintained for each subdivision of the centre's budget that the centre could not overspend. All major expenditures would be written off the balance as they were incurred, and any proposed major expenditure would be compared to the funds available before a decision was reached to incur the expenditure. All balances would be updated each month as the Budget Reports and Subsidiary Statements were received.

All Headquarters' responsibility centres would report "Firm Commitments" for inclusion in the Budget Report during the last three months of the fiscal year, so that the figures could be consolidated for each responsibility group except the posts. During these months, the posts would report their "Firm Commitments", via the Supplementary Budget Report, to the Area Comptrollers. Certain adjustments to these figures would be carried out by the Area Comptroller as explained below. Then a consolidated commitment total would be prepared manually for the allotment, Administration Abroad. In both cases, a comparison of the "Firm Commitment" figures with the "Planned Expenditure" figures would provide a rough measure of the latitude available for reducing expenditures where there was a danger of overspending.

The need to report and consolidate commitments manually for posts arises from the long mailing time between posts and Headquarters, and from the fact that some post commitments may be in the form of outstanding Expenditure Authorities issued by them to various Headquarters' divisions. Such outstanding authorities would be counted by the post as "Firm Commitments" even though the division concerned might not be able to purchase the item requested and have the invoice paid before the end of the fiscal year.

A simple method of overcoming this problem can be developed from the routine that we suggest each Area Comptroller should follow to help him carry out the expediting and coordinating role described for him earlier in the report. The suggested procedure is as follows:

1. The post issues a prenumbered Expenditure Authority to the Headquarters' division and sends one copy directly to the Area Comptroller.
2. The Area Comptroller maintains an "open" Authority file for each post coming within his jurisdiction. He also maintains a tickler file by date for follow up, and enters the post and authority number against the date on which he should contact the division concerned if no purchase order has been issued or other action taken in the interim.
3. The division concerned issues a purchase order showing all details, including anticipated shipping data and routing. A copy goes to the Area Comptroller as well as to the post.
4. The Area Comptroller attaches the purchase order to the Authority and makes a note in the tickler file against the date on which he should follow up this transaction again.

5. When the invoice is received, a copy or other notification is forwarded to the Area Comptroller who enters it in his file and transfers the relevant documents to an inactive file, if the shipment has completed the purchase order and the purchase order has completed the Expenditure Authority.

As noted above, the Area Comptroller can also use these files in the last few months of the year to adjust the "Firm Commitments" figures on the Supplementary Budget Reports received from posts. Those items that the Area Controller's files, or a phone call to the appropriate division, indicates will not be received and paid for within the fiscal year should be deleted from the "Firm Commitments" figure reported by the post concerned, to ensure an accurate figure for each post before consolidation.

#### Interim Supply

Interim Supply refers to the supply of funds which are made available to the Department during the period which intervenes between the tabling of the Estimates and the passing of the Estimates of the Department by Parliament.

During these periods funds are in short supply and priorities may have to be established for expenditures. Salaries, wages, allowances and other personnel costs come first. Other priorities have, in the past, been determined by the Head of the Finance Division in consultation with the Chief Treasury Officer.

The restriction of funds and the duration of such restrictions has never been of sufficient severity to justify any rationing of funds between spending units. It would appear that no such requirement is likely to arise either, under the system we are

proposing, since two adjusting mechanisms are available which can compensate for any short term treasury shortages which may occur during interim supply.

Should he find that demand temporarily exceeds supply, the Head of Finance Division can instruct the Chief Treasury Officer to:

- (a) postpone payment of supplier invoices forwarded by Headquarters' Divisions and
- (b) postpone the reimbursement of the revolving fund based on post accounts received.

If, in the future, spending patterns emerge which create more severe restrictions, consideration should be given to a method of rationing funds between responsibility centres that would allow them to spend such funds according to their own scales of priorities.

Sub -  
Use of Code Votes

Code votes are subdivisions of parliamentary votes that represent the cost of certain departmental activities over which the Treasury Board wishes to exercise specific control. They include such activities as Canadian participation in the International Commissions in Indo China, and Canadian representation at International Conferences.

We have not made provision in the cash control or expenditure coding systems for the continued use of these code votes since some of them, such as "Cultural Relations and Academic Exchanges", could be identified as reporting objects within a responsibility centre. Transfers in and out of objects such as these could be treated as an

exception to the general principle of freedom to transfer within budgets, and could be subjected to whatever specialized type of control the Department and the Treasury Board feel is warranted by the nature of the expense.

Other activities, such as Canadian participation in the Indo China Commissions, the costs of which could involve a number of the proposed responsibility centres, would have to be set up as additional primary allotments if it is considered necessary to segregate the costs of such activities for both estimating and control purposes. If, however, it is necessary to merely identify the costs of such activities for possible recovery or for information purposes, this can be done through the use of the "allocation" field in the proposed coding structure discussed later in this section.

#### Expenditure Coding

Expenditure coding is a means of identifying a transaction in such a way that it can be brought together into groupings of like transactions for the purposes of management reporting in the Department and for the Government as a whole. Like expenditures in this context can refer to expenditures of a similar nature, applying to the same project, made by the same responsibility centre or related to the same program or activity.

Because of the implications for cash control and for economic analysis, there is a Government-wide policy applicable to expenditure coding. Management Improvement Circular MI-8-66 states

"Beginning April 1st, 1967, departments will code their line objects to reflect the corresponding economic objects as listed in Appendix B". Paragraph 5 states "Effective April 1st, 1968, the new standard objects will be used by Treasury Board to control departmental expenditures until such time as departments introduce program budgeting by activity and responsibility centre ... Departments should consider adopting a format that will facilitate conversion to program budgeting and complete implementation of the new system of expenditure coding".

In the pages that follow, we examine the present system of expenditure coding in the Department, in the light of both the Department's and Treasury Board's requirements, and suggest the changes that we believe are necessary to meet these requirements.

#### PRESENT SYSTEM

For the 1967-68 fiscal year, the Department made provision in its coding system for the new standard objects and also the line objects. However during the year it became evident that a complete review of the coding was required. Errors in coding were numerous and there was a basic lack of understanding of the intent and use of the existing coding structure.

Finance Division embarked on a program to ensure firstly, that the line object coding was purified and secondly, that the individuals using the coding received training in the use of coding and explanations as to its end use. This was accomplished prior to the commencement of the 1968-69 fiscal year. The line object coding was reviewed and, where necessary, revised. A change

in the coding manual format was introduced to facilitate easier coding and to reduce the incidence of errors. A short training program was established and employees attending were given an opportunity to present questions and discuss their problems. This approach appears to be having good results in terms of reducing errors and increasing staff understanding of the system.

For the 1968-69 fiscal year, the Department is using a sixteen digit expenditure classification code which is called a coding block. Within this block, the sixteen digits have been grouped into coding fields which are used to identify a particular characteristic of the expenditure. When it is wished to group expenditures according to such a characteristic, they are sorted (electronically) using the information that has been entered in the appropriate field.

The 1968-69 expenditure coding block is illustrated below, showing the name of each field and indicating the number of digits provided.

<u>FIELD</u>	<u>DESCRIPTION</u>	<u>NUMBER OF DIGITS</u>
Division	- to which funds have been allotted	2
Establishment	- for which expenditure has been made	3
Code vote	- subdivision of a vote e.g. Departmental Administration	3
Project	- divisional or departmental projects e.g. Nato Move	4
Line object	- nature of the expenditure e.g. rent allowance or office supplies	<u>4</u>
		16

The total coding block must be filled, using zeros where necessary. The information is subsequently punched into cards

to act as an input for the computer's tabulations. It can be seen that, provided the coding is accurate, all expenditures can be retrieved and collated into any desired grouping within the scope of the coding fields provided.

As mentioned previously, a study was carried out within the Department to relate line object codes to the corresponding economic objects as required by Management Improvement Circular MI-8-66. However, no attempt was made by the Department to change the coding otherwise, leaving the existing fields unchanged until the proposed responsibility centres had been defined and accepted.

#### PROPOSED SYSTEM

While the names of the fields would be changed, under the coding system we are proposing, their function and definition would be quite similar to the present system. The structure of the proposed coding block would be as follows:

<u>FIELD</u>	<u>NUMBER OF DIGITS</u>
Primary allotment	2 digits
Responsibility centre	3 digits
Treasury office	1 digit
Allocation	3 digits
Project	3 digits
Object of expenditure	<u>4</u> digits
Total	<u>16</u> digits

Definition of Fields

The purpose for which each of the above fields would be used is outlined below.

1. Primary Allotment would indicate the principal subdivisions of each vote. This code field would be used for both departmental and Treasury Board control. In the event that there is a requirement for code vote control, as mentioned earlier in the section, this field could be used for this purpose as well.
2. Responsibility Centre would indicate the responsibility centre to whose budget the expenditure is to be charged.
3. Treasury Office would indicate where the disbursement occurred, using the digits 1 to 5 to identify the Headquarters Treasury Office and the four District Treasury Offices abroad, and the digit 6 to identify disbursements made by posts other than those served by one of the District Treasury Offices. This information would be required when transactions were being consolidated for the Budget Reports. The processing rules to avoid double counting, outlined earlier in this section, state that certain transactions would be excluded from the consolidation based on where the disbursement occurred. The Treasury Office coding field would be used for this purpose.
4. Allocation would indicate the post or other unit on whose behalf funds were being spent, regardless of whose budget they came out of. While the unit shown in this field would be the same, in most cases, as that shown in the "responsibility centre" field, its primary usefulness would be in reflecting those situations

where an administrative support division (e.g. Property Management) spends from its funds to implement certain plans at a post. This field would indicate the post at which the expenditure was made.

5. Project would remain the same as the present "project" field, but the number of digits has been reduced to three as the estimated number of projects for 1968-69 (150) is well within the three digit capacity of 1,000 numbers.
6. Line Object would be used for the same purposes as at present, with the first two digits relating to the new standard objects, the third digit to the reporting object, and the fourth digit to the line object. This would provide for up to ten reporting objects for each standard object and up to ten line objects for each reporting object (to provide the detail needed to tie-in with the government's economic objects).

In the case of the headquarters divisions, this would mean that their present breakdown of expenditures (which is primarily by line objects) could be grouped by reporting objects if they feel the present detail is not required for management purposes.

In the case of the posts we are suggesting that they should report their figures on a reporting object basis only. Since this would not provide the line object breakdown required for economic object reporting purposes, a special arrangement would have to be made.

We suggest that the Chief Treasury Officer should use percentage figures, based on an analysis of past expenditures and revised annually, to break down reporting objects into the required economic objects. We have discussed this possibility with representatives of the Comptroller of the Treasury, and have been assured that such an arrangement

would be acceptable to them. The amount involved is not large, and the alternative would be to have the posts telex in their expenditures by line objects, which would increase the cost of this procedure very substantially.

#### Petty Cash Expenditures

The same principle could be applied to the distribution of petty cash disbursements at posts. At the present time, petty cash vouchers are individually coded even though the amounts involved are very small. If an analysis were made of the typical distribution of petty cash expenditures at a number of posts between local transportation, express charges, and other principal categories of expenditures, it would be possible to apply the results of this analysis, expressed in terms of percentages, to the petty cash expenditures of each post.

This would eliminate the necessity of coding each petty cash voucher and recapping the petty cash expenditures for expense distribution purposes. The vouchers would, of course, still be subject to the same sort of check as at present for proper authorizations and the propriety of the expenditures.

#### Coding Financial Encumbrances

The current coding block has provision for a financial encumbrance number at the extreme left of the coding block. This would remain unchanged under the new coding system.

#### Responsibility Groupings

Provision must be made in the coding system for consolidating the results of responsibility centre operations into responsibility

groups with reports for the head of each group. This can be done in either of two ways. The first would involve adding a field to the coding block or enlarging the "responsibility centre" field to identify the group to which the responsibility centre belonged. A simpler method, however, and the one we recommend, would be to build into the computer program an instruction to print out the totals for each of the responsibility centres that are to be consolidated for a particular responsibility group report as well as the total for the group.

The groupings that would be used for normal Budget Report purposes are shown in Exhibit 6-8. Groupings by primary allotment are provided for in the coding block and these can be consolidated into groupings by vote.

### Revenue Control

Our terms of reference call for recommendations with respect to improved financial controls over revenue "consistent with the proposed structure for responsibility accounting".

For purposes of this study, the terms "revenue" and "financial controls" have been defined in the following manner:

- (a) Revenue refers to proceeds from the sale of goods or services produced by the Department, for which it is entitled to make a charge. It does not refer to proceeds arising out of such matters as the disposal of capital assets, recoveries of previous year's expenditures or payroll deductions from employees.
- (b) Financial control refers primarily to the responsibility for deciding on what goods or services shall be charged for, who shall be charged, and how much they shall be charged, and for ensuring that all sales of goods and services are billed and collected.

Thus, as is the case with respect to financial control over expenditures, our study is principally concerned with the decision making process under an appropriate responsibility accounting structure rather than the internal control functions of safeguarding assets, preventing the misappropriation of funds, etc.

### Types of Revenue

Disregarding for the moment the definition of revenue set out above, the various types of proceeds that are classed as departmental "non-tax revenue", and the amount received by the Department

in each of these categories in the 1966-67 fiscal year, are as follows:

Return on investments

Interest earned on loan to Ceylon to purchase Canadian wheat	\$	23,996	
Interest earned on United Nations bond		117,328	
Interest earned on loan to India to purchase Caribou aircraft		319,622	
Interest earned on loans to employees in connection with postings and major medical expenses		<u>4,136</u>	\$ 465,082

Privileges, Licences and Permits

Passport and visa fees	\$1,217,805	
Rent paid by employees living in government-owned accommodation abroad	<u>8,824</u>	1,226,629

Proceeds from Sales

Revenue arising from the disposal of property, automobiles and equipment abroad		23,421
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Services and Service Fees

Revenue earned from the rendering of consular, notary, etc. services abroad		16,577
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Refunds of Previous Year's Expenditures

This is in reality not a revenue item but a reduction of expenditures		169,959
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Miscellaneous

Superannuation contributions from non-public servants employed in diplomatic positions	\$	9,222	
Miscellaneous revenue arising out of sundry claims, postage sent in by passport applicants, etc.		5,776	
Service charges on development loans made by External Aid Office		<u>95,860</u>	<u>110,858</u>
			<u>\$2,012,526</u>

Controlling Revenues

Our study is concerned with the responsibility for setting charges and collecting revenues in connection with two of these categories of revenue, namely:

- Passport and visa fees
- Consular, notary and similar fees

Basis for Charging

The fees to be charged for most of these services are set out in the Tariff of Canadian Consular Fees contained in Chapter 14, Schedule A of the Canadian Consular Instructions Amendment No. 35 dated June 16, 1958.

The authority for making such charges, including what services to charge for, who to charge, and how much to charge is governed by Order-in-Council. Thus, any changes in the fee structure can only be made through an Order-in-Council as well. Submissions for changes can originate in any one of the departments concerned, such as External Affairs for

consular fees, and Manpower and Immigration with respect to visa fees, and are normally made through a joint submission by the Ministers of such departments.

Although the basis on which these charges were originally set appears to be lost in antiquity, the impression of some of the longer service employees in the Department is that they were related to what other countries were charging at the time, principally the United Kingdom and the United States.

#### Cost of Services

Little attempt was made by the Department, until very recently, to determine the actual cost of these services or to have the charges made for the services keep pace with general increases in costs since the time at which the charges were originally established or last adjusted. However, shortly before the commencement of our survey, the Passport Division commissioned a study to develop a system for identifying the costs of the various services it provides, as well as establish a more effective method of controlling its costs. We comment on the results of this study in the section of our report covering Accounting Systems.

With the information provided by the proposed cost system, the Department should have no difficulty in determining the costs of the services it provides in this area. Since these account for at least \$1,170,000 out of the slightly over \$1,200,000 revenue derived from passport and visa fees, the introduction of the system would mean that the Department would have a basis for determining its costs and thus a proper basis for setting its charges with respect to over 95% of the services for which it is entitled to make a charge.

The cost of the consular services it provides could be determined by a special cost study, if this were considered worthwhile. However, the amounts involved would not justify the establishment of any sort of a cost system to determine such costs on a continuing basis.

Responsibility for controlling revenues

The responsibility for determining costs, where applicable, and for suggesting any changes in the basis of charging for services, including who to charge, how much to charge, and what to charge for, would rest, under the proposed responsibility accounting structure, with the Head of the Passport Division in the case of charges for passports and certificates of identity, and the Head of the Consular Division in the case of charges for other services.

Accounting Control

The present system for ensuring that all services for which the Department is entitled to charge are billed and collected appears to be quite adequate. Transactions are on a cash basis so no problem exists with respect to ensuring that accounts are collected.

Passport blanks are serially numbered, and a report is prepared each month by the Passport Division showing the number of blanks on hand at the beginning and end of the month, the number issued and the number cancelled. This report is sent to the Chief Treasury Officer where it is reconciled with the cash receipts reported by the Division for the month.

Each post is given a supply of passport blanks which it must account for in dollars, cancelled blanks or blanks not issued. Each month the Passport Division supplies the Chief Treasury Officer with a list of the passport blanks sent to each post during the month. At the

end of the month, a reconciliation is prepared by each post which is forwarded to the Chief Treasury Officer and checked by his staff against control ledgers maintained for this purpose.

Revenue from charges for consular services is controlled through the use of special stamps in denominations of 5 cents to \$5.00. Stamps equal to the amount charged for the service are placed on the document concerned and cancelled by the Consular Officer so that they cannot be re-used. Records of stamps issued to, used by, and on hand at each post are maintained at departmental headquarters and used to check monthly stamp reconciliation reports submitted by the posts.

It would appear that a satisfactory method exists for ensuring that there are no significant amounts of revenue lost to the Department through passports being issued or consular services provided without an appropriate charge being made and the proceeds credited to the Department. This control is derived from the independent reconciliation carried out each month of the passport blanks used and the consular stamps issued with the actual cash received from each of these activities.

There were slightly over 3,000 passports issued "gratis" during the 1966-67 fiscal year by the Passport Division. Since more than 90% of these were for dependents of service personnel posted abroad, whose applications were supported by letters from the Department of National Defence, there would appear to be little possibility of revenue being lost from this source. A certain number of passports are issued "gratis" by the posts as well. Information as to the exact number of such passports was not readily available. However, we understand they are few in

number, are reported individually on the monthly report on "Consular Services Rendered Gratis" sent in by each post, and the application forms are subjected to a detailed audit by the staff of the Passport Division. This would, therefore, appear to preclude any appreciable loss of revenue from this source.

With respect to the accounting for revenue arising from fees collected for other consular services rendered at posts, such as affidavits and authentications, as noted previously, stamps issued must match the services for which fees are prescribed and collected. However, the onus rests on the integrity of the Consular Officer at the post to ensure that stamps are affixed where required and bear the date, his initials and cancellation by the post seal. In view of the participation in the procedure by other staff members at most posts, it is considered that any non-collection of the fees normally required, or a failure to affix fee stamps, would be the result of error or omission rather than an intentional act upon the part of the individual concerned.

We suggest that these and related matters should be made the subject of examination by the Inspection Service staff on their visits to posts, to ensure that the internal control procedures applicable to these areas are satisfactory.

## ACCOUNTING SYSTEMS

In this section of the report we discuss the existing accounting systems of the Department and the changes that would be required in these systems to meet the information needs of the Department under the financial management system outlined in this report.

### Scope of the Study

The scope for developing improvements in the Department's accounting systems is substantially reduced by the fact that practically all of its formal accounting records are maintained and its reports prepared by the Comptroller of the Treasury. At the larger posts (specifically Paris, Washington, London and Brussels), Regional Treasury Offices carry out this function.

There are, however, a few special purpose records maintained by certain divisions. These were reviewed in the course of our study along with the accounting procedures involved in such areas as invoice certification, commitment control, etc.

Our suggestions for improvements in these areas are discussed in this section under the following headings:

Accounting systems at the posts

Accounting systems in the Finance Division

Accounting systems in the Passport Division

Accounting systems in other headquarters divisions

Use of working capital advances.

Accounting Systems at the PostsPresent system

There are two accounting systems in use at the posts - one used by posts not served by Regional Treasury Offices, the other used by posts served by such Treasury Offices.

Posts not served by a local Treasury Office are financed through a letter of credit revolving fund or working capital advance. As a post requires funds, it draws them from the local bank against a letter of credit and deposits these funds as a credit to a post bank account. The post normally will draw funds twice a month and can draw up to a predetermined maximum established by the Finance Division. The bank is reimbursed semi-monthly by the Chief Treasury Officer in Ottawa and the reimbursement charged against the working capital advance.

Post expenditures are controlled by the limitations imposed by various regulations and by specific or blanket authorities issued by headquarters divisions. Each item of expenditure is logged against the appropriate expenditure authority by the accounting staff of the post. In addition, each post records its expenditures during the month on a statement known as the post "Financial Statement".

Two copies of this statement, which when accompanied by supporting vouchers is commonly called the "post accounts", are forwarded monthly to the Chief Treasury Officer for ~~pre~~audit prior to the vouchers being processed. After the vouchers have been processed, the appropriate allotments are charged and the working capital advance is credited. Thus, any delay in the processing of the vouchers has the effect of increasing the working capital advance required.

The staff of the Chief Treasury Officer are responsible for classifying post expenditures by line objects and converting them from the local currency of the country in which a post is located to Canadian currency. The vouchers are then processed by Treasury staff for inclusion in the departmental financial statements.

Posts served by a local Treasury Office are financed by an allotment transfer from departmental headquarters. The relationship between these posts and the local Treasury Offices is similar to the relationship between headquarters and the Chief Treasury Office located in Ottawa.

These posts are subject to the same spending regulations and authorities as posts which are not served by Treasury Offices, although the administrative staffs in the posts do not perform the disbursement function. They prepare cheque requisitions which are sent to the local Treasury Offices for pre-audit and payment. The posts receive a monthly statement from the local Treasury Offices which shows the post allotment, year-to-date expenditures made at the post from the post allotment, unliquidated commitments and free balances.

#### Suggested Changes

The changes in the post accounting records and procedures that would be required by the adoption of the financial management system proposed in our report are of a minor nature.

Under the proposed system, the administrative staff at the posts would be required to classify and code all expenditures made against the posts' budgets. We believe the post staff are in a better position to

know the exact nature and purpose of an expenditure than Treasury Office staff, and that the proposed arrangement would result in greater accuracy in expenditure classification and coding, and thus in the Department's financial statements.

The staff at the post would also be required to code and classify post disbursements made on behalf of headquarters responsibility centres and other departments. To facilitate such an arrangement, headquarters divisions would provide the appropriate coding to the post in the expenditure authorities that authorize a post to spend funds on their behalf.

Proceeds of a revenue nature would be reported by each post in its monthly statement. However, since the amounts of revenue generated at the post are relatively insignificant and since there is no financial management function of any consequence required with respect to such items, revenue figures would not be included in the post Budget Reports.

Post staff would also be responsible for converting post expenditures from local currency to Canadian currency. For this purpose, they would need to be provided with an official local currency exchange rate.

In order for the administrative staff at the posts to prepare the Supplementary Budget Report described in an earlier section, they would require information from the following sources:

1. the post accounts
2. prior month's Budget Report, and
3. estimates worksheets, up-dated to reflect planned expenditures for the remainder of the year.



The receipts (revenue) and disbursements (expenditures) of the post for the month would be summarized by reporting object on the Post Cash Control Record, a suggested format for which is shown as Exhibit 7-1 facing this page. This Record, which would replace the present post "Financial Statement", would provide the information on current month's expenses for the Supplementary Budget Report. Data on expenditures up to the end of the previous month plus adjusted budget figures would be obtained from the prior month's Budget Report.

As outlined in a previous section, the posts would receive each month listings of expenditures made by headquarters divisions out of the posts' budgets, as authorized by requisitions or expenditure authorities issued by the posts. The posts would record these authorities as planned expenditures in preparing their Supplementary Budget Report until notified by the listing that an actual expenditure had been made against a given authority. When this happened, the posts would reduce the balance outstanding on the authority by the amount of the expenditure or transfer the authority to a "closed" file if the expenditure exhausted the authority.

The planned expenditures figure for the Supplementary Budget Report would be taken from the estimates worksheets up-dated to reflect the completion or otherwise of planned projects, changes in rates of expenditure, such as rents or utilities, and any changes in original plans which would have an effect on the expenditures anticipated for the balance of the fiscal year.

Accounting Systems in the Finance DivisionPresent System

There is very little work of an accounting nature carried out in the Finance Division. Headquarters' administrative and functional divisions maintain their own commitment control records and certify and code their own invoices. These are then forwarded directly to the Chief Treasury Officer (CTO) for payment. Similarly, post accounts, although processed through the Finance Division, are coded and recorded by the CTO.

The post accounts are received by the Departmental Cashier who records and deposits with the CTO all monies and valuables accompanying the accounts. They are then forwarded to the Accounts Section where they are subjected to a brief examination to ensure that they are complete and that the amount authorized in the post's letter of credit is still appropriate. Vouchers pertaining to travel expenses are detached and given to the Travel Audit Section for auditing purposes. The accounts are then sent to the CTO for ~~the~~ audit and the preparation of the charge against the departmental appropriation.

Observations raised by the CTO on any of the accounts submitted by the posts or headquarters divisions are processed through, and controlled by, the Finance Division. If the staff of the Division are unable to reply to an observation, it is referred back to the spending unit concerned. The Division is also charged with the responsibility of following up on the collection of payments made to distressed Canadians, where initial contacts by the CTO do not produce the desired result.

The Division maintains a petty cash fund from which to make minor purchases, and prepares cheque requisitions for certain types of

payments, such as those made under Vote 15 for grants and assessments to international organizations, based on documentation prepared by the functional divisions concerned. It also maintains a record showing the disposition of cheque requisitions initiated by it as well as copies of the departmental financial encumbrances that it issues.

### Suggested Changes

Under the financial management system proposed in our report, most of the Department's accounting work would continue to be performed by the Comptroller of the Treasury, who would also be responsible for the accounting systems associated with this work. Thus the Finance Division would not be required to maintain any more accounting records than it does at present, with the possible exception of a record of payments made under Vote 15 to supply the information required for periodic reports to the headquarters divisions concerned - as suggested in the previous section on reporting systems.

*Expanded*

### Accounting Systems in the Passport Division

#### Expenditures

Under the present financial management structure of the Department, financial responsibility and authority for controlling the expenditures of the Passport Division rest with the administrative support divisions. For this reason, the personnel of the Passport Division do not carry out any accounting activities other than a small amount of expenditure coding and revenue reporting. At the same time, a certain amount of operational control is provided through the use of weekly production reports.

Recently the Department came to the conclusion that more effective financial control could be achieved by delegating greater financial authority and responsibility to the staff of the Passport Division. It has also suggested that, since the Passport Division's operations are of a revenue producing nature, the costs of which should be borne by the public who use its services, these operations should be financed through a working capital advance (revolving fund).

A preliminary Financial Management Survey of the Passport Division was carried out by the Department in late 1967. The purpose of the survey was to determine the extent to which financial authority and responsibility should be delegated, to assess the practicability of financing the Division's operations by means of a working capital advance, and to develop an accounting and reporting system that would provide information for costing passports and other products processed by the Division as well as for cost control purposes.

As a result of this survey, ten recommendations were made concerning the financial management of the Passport Division. These can be summarized as follows:

1. A written statement of the objectives and goals of the Division is needed, together with plans to achieve these goals.
2. The Passport Division's operations should be recognized as a separate activity of the Department.
3. Financial authority and responsibility should be delegated to the Head of the Passport Division. Cost centres should be established at the working supervisor level.

4. Responsibility for the preparation of the Program Review and Estimates submissions should be delegated to the Head of the Passport Division.
5. Estimates should be submitted on both an activity (end product) and cost centre basis.
6. The Passport Division's operations should be financed by a working capital advance.
7. A financial reporting system should be developed to provide the data required for efficient operating control.
8. Accounting records should be maintained and reports provided by the Comptroller of the Treasury.
9. A cost accounting system should be developed to cost the Division's end products and to provide for more effective control over its operations.
10. A financial advisory unit should be created to provide financial advice and services to the Division.

We are in general agreement with the above recommendations. However, we believe it should be possible to achieve basically the same results with a somewhat simpler system than that envisaged by the preliminary survey. The modifications we would suggest to the proposals set out in the report of the survey team are discussed in the paragraphs that follow.

Nine separate services or end products were suggested in the survey report. These were as follows:

1. Issue of ordinary passports
2. Renewal of ordinary passports
3. Issue of certificates of identity
4. Renewal of certificates of identity

## DEPARTMENT OF EXTERNAL AFFAIRS

## COST CENTRES, BASIS OF COST ALLOCATION AND UNITS OF WORK MEASUREMENT PROPOSED FOR THE PASSPORT DIVISION

EXHIBIT 7.2

COST CENTRES	COST CENTRES CONTRIBUTING TO PRODUCT COSTS					BASIS OF ALLOCATING COSTS TO PRODUCTS	UNITS OF WORK MEASUREMENT
	Passport -New	Passport -Renewal	Certificate of Identity	Diplomatic & Special -New	Diplomatic & Special -Renewal		
General Administration	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	N/A
Supply & Accounts	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	N/A
Personnel	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	N/A
Passport Registry	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	N/A
Typing	Yes	Yes	No	No	No	Ratio of work done on new versus renewal passports	1. Number of form letters typed 2. Number of other letters typed
Microfilm	Yes	Yes	No	No	No	Relative Production	N/A
Divisional Registry - pending file work - stripping operation - permanent filing	Yes	Yes	No	No	No	Relative Production	Number of attachments handled Number of applications stripped Number of applications filed
In Mail & Cash							
- opening & sorting	Yes	Yes	Yes	Yes	Yes	Relative Production	Number of pieces of mail handled
- cash & validating	Yes	Yes	Yes	No	No	Relative Production	Number of cash receipt entries
- backing & boxing	Yes	Yes	No	No	No	Relative Labour Content	1. Number of new applications boxed 2. Number of renewal applications boxed
- index typing	Yes	Yes	No	No	No	Relative Production	Number of indexes typed
- box list typing	Yes	Yes	No	No	No	Relative Production	Number of box lists typed
- index filing	Yes	Yes	No	No	No	Relative Production	Number of documents filed
Production							
- writers	Yes	Yes	No	No	No	Relative Labour Content	1. Number of new passports written 2. Number of passport renewals written
- finishing	Yes	Yes	No	No	No	Relative Labour Content	1. Number of new passports finished 2. Number of passport renewals finished
- outmail	Yes	Yes	Yes	Yes	Yes	Relative Production	Number of pieces of mail handled
Foreign Operations	Yes	Yes	No	Yes	Yes	Relative Production	
- training							N/A
- foreign audit							Number of applications audited
Junior Examiners	Yes	Yes	No	No	No	Relative Labour Content	1. Number of new passport applications examined 2. Number of renewal applications examined
Review	Yes	Yes	No	No	No	Relative Labour Content	1. Number of new passports reviewed 2. Number of passport renewals reviewed
Senior Examiners	Yes	Yes	No	No	No	Ratio of work done on new versus renewal applications	Number of applications processed
Public Counter	Yes	Yes	No	No	No	Relative Production	Nil
Facilitation & Telephone	Yes	Yes	No	No	No	Relative Production	Nil
Certificate of Identity	No	No	Yes	No	No	No Reallocation	1. Number of certificates issued 2. Number of certificates renewed
Policy	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	Nil
Diplomatic	Yes	Yes	No	Yes	Yes	Relative Labour Content	1. Number of D. & S. passports issued 2. Number of D. & S. passports renewed 3. Number of ordinary passports typed
Security	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	Nil
Financial Services	Yes	Yes	Yes	Yes	Yes	Percentage of Direct Labour Costs	Nil

5. Issue of diplomatic passports
6. Renewal of diplomatic passports
7. Issue of special passports
8. Renewal of special passports
9. Functional direction and advisory services to Heads of Posts  
regarding the issue and renewal of passports abroad

We believe the establishment of separate costs for several of these products is not required for either cost control or pricing purposes.

We suggest the nine products be reduced to the following five:

1. Issue of ordinary passports
2. Renewal of ordinary passports
3. Issue of diplomatic and special passports
4. Renewal of diplomatic and special passports
5. Issue and renewal of certificates of identity

Eventually, if the practice of renewing passports is discontinued, the number of products could be reduced to three.

The operating costs of each section within the Division (including common service costs) should be allocated to these products semi-annually. This would provide management, on a regular basis, with the cost data required to assess the adequacy of the existing fee structure. A suggested basis for allocating costs to products is illustrated in Exhibit 7-2 facing this page.

Common service costs that should be taken into account for pricing purposes would include at least the following:

1. Accommodation
2. Accounting services (Comptroller of the Treasury)
3. Depreciation
4. Employee fringe benefit costs

5. Carrying of franked mail
6. Interest charges on the working capital advance used to finance the Division's operations

Where the basis of cost allocation shown in Exhibit 7-2 is "Relative Production", this means the total costs of a given section (or sub-section) for the six month period would be allocated to the products produced or processed in that section in the ratio that the total production of each product in the six month period bears to the total production of all products in the section. This assumes that the work involved in handling each of the different products processed in that section is approximately the same. If subsequent study indicated that this was not the case, it would be necessary to weight each of the products according to the amount of labour involved in processing it through that section.

This approach is illustrated by those sections where the basis of cost allocation is shown as "Relative Labour Content". In these sections the proportion of the total labour costs of a section to be allocated to each of the products handled in it during the six month period would be arrived at as follows:

- a) The volume of each product produced or processed in the section during the six month period would be multiplied by the standard labour content of the product (number of man hours or fraction of a man-hour needed to process one unit of product) used in the weekly labour efficiency reports described further on.
- b) The costs of the section would then be allocated to each product on the basis of the proportion of the total manhours of the section consumed by each of the products handled in it.

The normal divisional budgetary reports envisaged by the financial management system proposed in our report would be supplemented by sectional budgetary reports which would show the actual labour costs

incurred by each production section (or sub-section) compared to budgeted labour costs for these sections.

Weekly labour efficiency reports would be prepared for those sections or sub-sections whose production can be measured in terms of the number of units produced or processed which, in turn, can be converted into the number of manhours that should have been consumed in carrying out this work. To make this conversion it will be necessary to establish labour standards, preferably on a measured basis through the use of work study techniques. In addition, it will be necessary to establish methods of measuring the output of each production centre in terms of units such as those suggested in Exhibit 7-2.

In the case of those cost centres that do not lend themselves to this type of control, such as the Senior Examiner Section or the Supply and Accounts Section, their expenditures would be controlled by the normal budgetary control process.

#### Revenues

The Passport Division is the only division in the Department where the recording of revenue assumes any significance in terms of the accounting systems required. Even here, because all revenue is recorded on a cash basis, and the analysis needed for management purposes is quite limited, only a simple accounting system is required. In our opinion, the existing system, with possibly one minor modification, would be quite adequate for this purpose.

At the present time, the majority of applications are received in the mail accompanied by the appropriate remittance (cheque, money-order, etc). These are put through a Validator, which records the receipt on the application, and the cash is deposited by a Cashier. The total of the receipts as recorded on the Validator is checked each day with the total of the daily deposit.

The Validator has provision for five separate totals. These are presently being used to record the form in which the remittance is received (cash, cheque, etc). If separate totals for each of these forms of remittance is not essential for purposes of balancing with the daily deposit, they could be used to record the revenue according to the end products discussed previously.

However, if they are required for balancing purposes, it would be a simple matter to batch the applications, sort them by end product and count the number of applications in each category. These figures could then be entered in a simple register, totalled at the end of the day, multiplied by the appropriate fee and the total agreed with the total of the day's receipts.

#### Accounting Systems in Other Headquarters Divisions

##### Present System

A number of headquarters divisions maintain some form of accounting record as an aid in the control of those departmental funds for which they are responsible. Most of these are maintained for the purpose of controlling commitments. These range from simple files of "unpaid" and "paid" purchase orders to formal ledgers in which both purchase order amounts and the amounts of related invoices are entered. These records are used to provide the information on "firm commitments" required for the present departmental consolidated statements.

In addition, the following divisions maintain certain specialized records to meet their particular needs.

1. The Communications Division maintains a record of couriers' travelling expenses from which periodic reports are prepared showing the cost of each courier's run.

2. The Cultural and Information Divisions maintain a record of financial encumbrances and payments made against them. The Cultural Division also maintains a record of expenditures and commitments for each project that it undertakes.

#### Suggested Changes

We believe that it should not be necessary for any of the headquarters responsibility centres to maintain formal accounting records under the system we are proposing. It will, however, be necessary for them to maintain files of outstanding purchase orders and expenditure authorities to provide the "firm commitments" figure that we are suggesting should be incorporated into the budget reports for the last three months of the year.

It will also be necessary for these centres to up-date their estimates worksheets each month to reflect changes in rates of expenditure, the completion or otherwise of planned projects, and any changes in original plans which would have an effect on the expenditures anticipated for the balance of the year. These worksheets would be used to calculate the planned expenditures figures that each centre would be required to supply for the monthly budget reports.

Each headquarters responsibility centre would, of course, continue to be responsible for certifying and coding all invoices relating to its area of responsibility.

#### Use of Working Capital Advances

##### Definition

A working capital advance is defined in the Treasury Board's Management Improvement Policy No. MI-5-55 as follows: "A 'working capital advance' means a revolving fund and is an authorization by Parliament to draw from the Consolidated Revenue Fund monies not to exceed a given maximum at any one time sufficient to finance the operation of a program,

activity or sub-division thereof on a continuing basis, with receipts in respect to the operation of such program, activity or sub-division thereof credited to that advance so that they will again become available for use."

#### Present Working Capital Advances

At present the Department is operating with one working capital advance called "Posts Abroad Working Capital Fund". This advance was originally authorized in 1954 in an amount of \$1,000,000. It has been increased steadily over the years until today the total amount authorized is \$2,500,000. The "Posts Abroad Working Capital Fund" is used, by posts not served by a local Treasury Office, to finance the following categories of disbursements.

1. Advances to posts through a letter of credit system
2. Employees' posting loans
3. Employees' medical loans
4. Expenditures on behalf of other government departments

The portion of the working capital advance used to finance advances to posts operates by means of a letter of credit system as outlined earlier in this section. Loans to employees for postings and medical reasons are charged to the working capital advance when the loan is made. The funds become available again to the Department as the employees repay the loans. Similarly, expenditures made on behalf of other government departments are charged to the working capital advance upon payment and credited when the funds are collected from the other departments.

We believe this working capital advance system provides a satisfactory method of financing post expenditures. If the reporting and accounting systems recommended in previous sections of this report are

adopted, it may be possible to reduce the amount of the working capital advance, since the interval between the time at which the post disburses the funds and the time at which the resulting expenditure information is available for reimbursing the advance would be significantly reduced.

#### Working Capital Advances Presently Being Considered

Earlier in this section we indicated our agreement with the recommendation arising out of the Preliminary Financial Management Survey conducted by the Passport Division, to the effect that the Division's operations should be financed through the use of a working capital advance. In the paragraphs that follow, we discuss the advantages and disadvantages of this method of financing and how it might operate.

The principal advantages of financing the Passport Division's operations by means of a working capital advance would be as follows:

1. It would provide for greater flexibility in financing the Division's operations, since revenues generated by a greater than anticipated volume of sales could be used to finance the correspondingly increased costs.
2. It would simplify the annual appropriation procedure by eliminating the need for the preparation and submission of estimates.
3. It would reduce the necessity of curtailing operations in periods of interim supply - which happen to overlap the Division's annual peak load period.

Offsetting these advantages to a very minor extent would be a certain amount of additional administrative and accounting work that would be entailed in operating under this type of system. However, even here, it would be very difficult to distinguish between the extra work caused by the use of a working capital advance and that created by the development of cost and other control information needed to put the Division's operations on a

more business-like footing. In any case, we believe the potential benefits far outweigh the extra effort that would be involved, and strongly support the recommendation of the Preliminary Survey that a working capital advance should be used to finance the operations of the Passport Division.

Such an advance would operate in the following manner:

1. A limit would be established for the advance. This would mean that the Passport Division could draw funds from the Consolidated Revenue Fund up to the predetermined limited.
2. When payments were made for operating expenditures, the working capital advance would be charged.
3. When revenue was received, the advance would be credited.
4. Common service costs would be included as memo items only.
5. Any surplus would be transferred at the end of the fiscal year to the Consolidated Revenue Fund, while annual deficits would be charged against a departmental appropriation or an allotment provided for that purpose.

#### Recommendation for New Working Capital Advances

The General Purchasing Office in the Material Management Division maintains an inventory of administrative supplies from which the headquarters divisions and the posts requisition their supplies. This office is responsible for controlling the purchase and supply of stationery, forms, and other office supplies throughout the Department.

It is estimated that the value of supplies in inventory varies from \$125,000 to \$190,000 during the year. Actual figures are unavailable as no dollar records are kept. According to the 1968-69 estimates the Department will spend approximately \$410,000 on these supply items. This excludes passport blanks and applications which amount to an additional \$181,000.

A card system is used to record the items in inventory.

There is a card for each item showing:

- a. description and catalogue number
- b. purchase order number and quantities received
- c. name of the division or post to which supplies are issued,  
and the quantities issued
- d. quantity on hand
- e. maximum and minimum stock levels and re-order points
- f. suggested re-order quantities

Issues from stock are not priced and, other than an entry on the stock card, do not result in further accounting action. During the year, test counts are taken of items in inventory. These are reconciled to the stock cards and the stock card adjusted to reflect the actual amount on hand. A complete physical count is taken annually, and significant adjustments to the stock cards are approved by the head of the General Purchasing Office.

The basic weaknesses of the present system are as follows:

1. The present practice of charging the cost of supplies to an appropriation at the time of acquisition rather than when consumed means that the cost of such supplies is not necessarily charged to the period in which they are used.
2. The Material Management Division is responsible for the supplies allotment although they have very little control over the usage of the supplies.
3. Since the stock cards are maintained by quantity only, there are no dollar values of stock readily available. Even if these figures were available, there is no control account maintained with

which the sum of the dollar balances in a given category of stores could be agreed. Records in some of the stores are adjusted throughout the year and no record of these adjustments is maintained. As a result, the overages or shortages shown by the annual physical count do not necessarily indicate the full extent of any discrepancies between physical and book quantities.

To overcome these deficiencies, we recommend that administrative supplies stores should be financed and controlled by a working capital advance. This advance would be charged as merchandise was purchased and credited when merchandise was requisitioned by the various responsibility centres.

We further recommend that the "standard price" basis of costing supplies should be used. Under this system, each item in stores is assigned a standard price (reflecting the current cost of the item, including freight-in). This price (or cost) remains in effect until the actual cost of the item differs from the standard by a predetermined percentage. This predetermined percentage varies with the value and the usage of the item. Thus, for those items where, through high value, high usage or a combination of the two, the dollar value of the supplies consumed in a given period is relatively high, standard prices are adjusted more frequently than for those items where dollar value of supplies consumed is comparatively low.

Under this system, all requisitions or issues are charged out of stores, and all purchases or receipts charged into stores, at standard cost (the quantity of each item times its standard price). In the case of purchases, any difference between the actual cost of the supplies and the standard cost is charged to a variance account, which is written off to operating costs at the end of the fiscal year.

The alternative to such a system is the use of actual costs, determined on any one of a number of generally accepted bases. This normally involves the recalculation of such costs every time an item is purchased and the entering of dollar values of receipts, issues, and stock on hand each time goods are purchased or issued.

The standard price system, while not as sensitive to price changes as the other systems, particularly where highly current or accurate cost data is required, provides equally effective control over stores and an adequate basis for charging stores to the user divisions or posts with only a fraction of the clerical effort required.

Under this system, quantities issued and received are entered as they are now, on the stock cards. The standard price in effect for each item is also noted on the card for that item. Periodically a list is prepared of the quantities shown by the records as being on hand for each item. This list is extended by using the respective standard prices of the items and totalled. The resulting figure should equal the balance in the control account.

The control account should be maintained by the financial staff of Material Management Division. Depending on the volume of supplies involved and the difficulty that may be encountered in balancing physical counts with the control account, it may be necessary to maintain separate control accounts for the principal types of inventory (forms, stationery, general office supplies, etc) held in stores.

The control accounts would be kept up-to-date on the basis of information derived from two sources - purchases and requisitions. As mentioned previously, purchases would be converted to a standard price basis - by multiplying the number of items purchased by the standard price of the item - and entered into the appropriate control accounts at standard.

Requisitions would also be costed at the standard prices of the items on the requisition, extended, summarized and entered into the control accounts.

Thus, the control accounts would always represent the value (at standard prices) of the items that should be in stores. Whenever the standard price of an item was adjusted, a corresponding adjustment would have to be made to the control account. This adjustment would be equal to the number of items on hand times the amount by which the standard price was changed. An adjustment would also be required any time a physical inventory was taken and the quantity shown on the records was adjusted to agree with the amount actually on hand.

Each month the costed requisitions would be sorted by responsibility centre, totalled for each centre, and the resulting amounts made the basis of a journal entry by the Comptroller of the Treasury charging the respective responsibility centres and crediting the working capital advance.

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