

**AUDIT
OF
THE CANADIAN EMBASSY**

ZAGREB

FEBRUARY, 2002

Audit Division (SIV)

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EXECUTIVE SUMMARY

An audit was conducted in Zagreb during the period June 18 to 19, 2001. The audit of Mission programs was limited to issues identified at Headquarters and at the Mission and did not include a comprehensive review of all program systems and procedures. The previous audit of the Mission took place in May 1994.

The Mission is benefitting from excellent leadership and direction. Staff are hard working, dedicated and work together to meet all program objectives. Morale is high.

The Mission is experiencing a changing political and commercial environment. Open hostility has given place to accommodation and cooperation. This is presenting many new opportunities. If the Mission is to seize these new opportunities, it must develop and resource, in consultation with RBD, a strategic plan. Until now, the direction has been primarily based on the crisis at hand. This can no longer be the Mission's *modus operandi*.

The Mission is managing an expanded Development Program and dealing with other increased program activities as recent changes in Croatia work their way into all aspects of Croatian life. The Mission is hard pressed to deal with the increasing workload and staff are becoming increasingly frustrated by the new demands. The Audit Team reviewed the work package of all staff (CBS and LES) and believes that the hiring of an LES Bookkeeper/Receptionist and minor changes to staff responsibilities will provide some immediate relief to the situation.

The Mission needs to review the rationale for some of its accounting processes. Many of the processes are a throw back to an earlier time, the reasons for which are no longer valid. Eliminating these labour intensive accounting processes will provide more time for other administrative activities.

Recommendation Status

This report contains a total of 14 recommendations, of which 13 relate to the Mission and 1 relates to Headquarters. Given the responses received from the Mission, 8 recommendations have been implemented and 5 are in the process. Recommendation 3.2.4, directed at Headquarters, is being addressed and the Department is now developing a more comprehensive approach to dealing with categories of the Mission.

MANAGEMENT OF THE MISSION

1.1 Overview

1.1.1 When the Mission was originally established its primary purpose was to provide consular services, some modest commercial assistance and to do political reporting. While political reporting remains a major task, the Mission is increasingly involved in commercial activity, in an up-graded humanitarian and other aid programs, in an increased number of official and ministerial visits and in an expanded Consular program, with the return of tourism. The Mission is now a small, full service Mission. The conditions under which it was originally established have changed radically. The Mission must consider how it will exploit the new environment with its existing resources. Since the last audit in 1994, the CBS complement has remained constant at two, while the LES complement has increased from four to six. The additional LES are attributable to the operational responsibilities of the Immigration and Development Programs in Croatia.

1.2 Memorandum of Understanding

1.2.1 There is a Memorandum of Understanding (MOU) governing the working relationship between Budapest (Hub) and Zagreb (Spoke) which covers Mission management and all Mission programs including those of the OGDs (Immigration/Development). Both Hub and Spoke are satisfied with the MOU.

1.3 Program Planning

1.3.1 The HOM EX Performance Contract and staff objectives are in place. Mission staff meet weekly for a round table and have found this to be an effective communication vehicle. However, Mission planning could be more effective. There is no formal strategic direction. Instead, the overall direction and activities are determined through dialogue with HQ and among themselves. Direction and activities depend on the crisis at hand.

1.3.2 In lieu of preparing input for this year's Bureau Business Plan, the HOM prepared a "snapshot" of the changes in Croatia over the past year and their continuing impact on the Mission's activities in the future. The "snapshot" was not intended to set out an overall plan and agenda for the Mission, but does provide a sound basis from which a strategic plan can be developed and resourced.

Recommendation for the Mission

1.3.3 In consultation with RBD, use the "snapshot" to develop and resource a strategic plan.

Mission Response

1.3.3 We have given considerable thought to a Mission Strategic Plan and are in the process of preparing a draft for RBD's consideration. We are aiming to have the Strategic Plan, conditioned by the outcome of the Balkan Strategy Review being undertaken by RBD, in place for the beginning of the next fiscal year, i.e., April 2002.

1.4 Workload Analysis

1.4.1 There is a need for the Mission to review the assignment of work for all Mission staff (CBS/LES). The workload needs to be redistributed to achieve more balance and better efficiency. The HOM and First Secretary and Consul raised concerns with respect to the amount of time they must spend on the Development workload. It is externally driven by Development with requests for the Mission to attend meetings, review and monitor projects, etc., on their behalf. The First Secretary and Consul is concerned that there is little time available to effectively review Development projects, to monitor project performance and to analyse and prepare political reports. The Mission is frustrated with prioritizing and re-prioritizing the constant demands.

1.4.2 The Audit Team reviewed the work package of all staff (CBS and LES) and believes that the hiring of an LES Bookkeeper/Receptionist and the realignment of staff responsibilities will provide some immediate relief to the situation. Minor shifts in responsibilities would involve the following personnel:

- The Immigration Assistant is presently responsible for only immigration which takes approximately 50 to 60 percent of his time. The Assistant should also be assigned responsibility for passport processing as the current level of passport work would ensure his day is fully occupied. It is the understanding of the Audit Team that the Mission has approached Immigration in Vienna with respect to the under utilization of the Assistant. Immigration in Vienna expressed no concerns if the employee did non-Immigration work during emergencies and leave related situations. However, if the work were to be completed on a regular basis, Immigration may seek some sort of compensation.
- The Administration/Consular Assistant presently responsible for passport processing could then spend more time on administrative work. She could become the Office Manager and assume supervisory responsibilities over the Immigration Assistant and the new LES Bookkeeper/Receptionist position, in addition to her current responsibility for the Driver/Messenger. The HOM may want to consider delegating signing authority under the Canada's Evidence Act to the Administrative/Consular Assistant.

- The Technical Cooperative Officer spends approximately 30 percent of his time assisting the Administrative/Consular Assistant. If the Administrative/Consular Assistant were to do more administrative work, the Technical Cooperative Officer could spend 100 percent of his time on Development activity and improve project review and monitoring.
- With the Receptionist responsibility reassigned to the Administrative/Consular Assistant, the Receptionist/Social Secretary/Public Affairs Assistant could spend more time on Public Affairs activities. With the expanded Development and IBD Programs in Croatia, there is a need for Public Affairs to ensure that appropriate recognition of Canada is given.
- The shifting of work among the LES would enable the First Secretary and Consul to better manage the Development projects and increase the present level of project review and monitoring. It would also allow more time for the analysis and the preparation of political reports. In addition, it would provide the Mission with an opportunity for a modest expansion of a Public Diplomacy Program.

1.4.3 In conclusion, the Audit Team believes that shifting passport processing to the Immigration Assistant and the addition of an LES position responsible for Bookkeeping/Receptionist responsibilities would enable the Mission to better align the responsibilities of its LES, impacting positively on all Mission staff. This would more effectively and efficiently address existing Mission workloads.

Recommendations for the Mission

- 1.4.4 **In consultation with RBD, transfer passport processing to the Immigration Assistant and create a new LES position to be responsible for Bookkeeping/Receptionist responsibilities.**
- 1.4.5 **Review and realign the other positions affected.**

Mission Responses

- 1.4.4 **With the approval of the Immigration Programme Manager in Vienna, the Immigration Assistant is now processing all passport applications.**

Authority to create and fill an LES Receptionist/Bookkeeper position was received from RBD/RAM in December and the selection process will be completed by the end of January 2002.

1.4.5 Other positions will be re-aligned as recommended once the new LES is in place. Following her successful completion of the CFSI Consular Officer Training Program last autumn, the Office Manager/Consular Assistant has been delegated signing authority under the Canada Evidence Act.

While a re-allocation of duties among the LES and the addition of a Receptionist/Bookkeeper will better distribute tasks, the changes will have a minimal impact on the workload of the First Secretary. The increase in Development activity and the increasingly elaborate administrative mechanisms required for ODA disbursement are requiring additional management time. As well, the transition of the Development Program to more technical assistance and the increased activity of the Public Affairs Program require increased “human contact” time. Relief is required.

1.5 Public Affairs

1.5.1 The Public Affairs activities are driven by both the expanded Development Program and the change of Government in Croatia. There is a need for Public Affairs to ensure that appropriate recognition of Canada is given for its Development contributions. Because of the renewed receptiveness of the Government and people for anything western, there is an opportunity for a modest expansion to promote Canadian culture and values. The Public Affairs activities are headed by the First Secretary and Consul and supported by the Public Affairs Assistant. The Assistant recently attended the Assistant to Head of the Program course at HQ. The training provided Program knowledge and a network of colleagues at HQ and other missions. As a result, she is organizing a small and interesting Program for the Mission. As noted under the workload analysis, a shift in her responsibilities would provide more time for her to identify and realize opportunities in this Program.

1.6 Development Program

1.6.1 The Development Program in Zagreb is headed by the First Secretary and Consul and supported by the Technical Cooperative Officer (TCO). This \$300,000 per year Program, when combined with the Canada Fund activities, makes the Mission a significant disburser for small projects and requires a good deal of time and effort to ensure that objectives of the Program are met. Large directly funded projects, such as mine awareness and the Judges project, while not requiring Mission administration attention, require continued monitoring. As noted in the workload analysis observation, this is a busy Program and the Mission is concerned with the lack of available time to effectively review Development projects and monitor project performance. The more time the Technical Cooperative Officer can devote to this activity, the more it will enhance the level of Mission management of this Program.

Mission Comment

- 1.6.1** Since this audit was undertaken the Mission's budget for Development projects has been doubled to \$600,000 in the FY 2001/2002 and to \$700,000 in the FYs 2002/2003 and 2003/2004. To assist with the administration of the Program, CIDA has given authority to hire a local contractor and to purchase a vehicle for use in project monitoring/auditing. Both are in place, giving us greater confidence that we will be able to conduct effective reviewing and monitoring of projects.

INTERNATIONAL BUSINESS DEVELOPMENT (IBD) PROGRAM

2.1 Overview

2.1.1 The Mission believes that Croatia is no longer seen by the international business community to be situated next to a pariah state. In the past, this perception was an impediment to commercial activity. The Mission is experiencing increasing trade activity, particularly in assisting Canadian investment initiatives. The Mission's challenge is to encourage Canadian business to take advantage of the opportunities, primarily in four sectors: oil and gas, agro-business, information technology and building construction.

2.1.2 The Mission has a Commercial Officer (CO) who reports to the HOM. The HOM supports her in the day-to-day activities while the Trade Commissioner in Budapest provides functional guidance through the IBD Strategic Plan for the Region and periodic liaison visits to Zagreb.

2.1.3 Last February the Commercial Section from Budapest had an Inter-Post meeting in Zagreb. The purpose was to familiarize themselves with the Croatia region. In addition, the CO was in Budapest in November to participate in the planning process that resulted in the preparation of the IBD Strategic Plan for the region.

2.1.4 The implementation of the plan may have two impediments. Budapest is relying on Zagreb to provide funding; however, Zagreb has little funds to contribute to the plan. In addition, the inability of the Trade Commissioner to work in the local language presents a series of problems, the most important of which is the possibility that local clients may view the CO as an interpreter, instead of an Officer.

Recommendation for the Mission

2.1.5 The resourcing concern should be discussed with the Trade Commissioner in Budapest to assess the impact this will have on the plan.

Mission Response

2.1.5 The region requires an additional experienced Trade Commissioner (junior FS-2) deployed to the Spokes to round out the IBD coverage. A modest increase in the Mission's hospitality ceiling, plus an increase in funding for the hiring of interpreters, would give a major boost to the IBD Plan's implementation.

2.2 New Approach

2.2.1 Although the CO has not received the New Approach training, she has a basic understanding of the New Approach and has demonstrated a willingness to implement it. The Section provides, from time to time, more than the six core services. It finds that, in this part of Europe, there is a need to do some logistical and hospitality services for visiting Canadians. The CO is aware of the new emphasis on alternative service providers and has prepared a list of local service sources. Each provider on the list was interviewed by the CO and she believes as the market matures so will the effectiveness of the service providers.

2.2.2 The CO has developed a good plan that describes her objectives/goals. Since April 2000, the CO in Budapest has made seven visits to Croatia. The CO in Zagreb finds these trips very helpful for her to meet local contacts. She now needs to follow up these contacts with more out calls to maintain the relationship and identify others that she should contact. This will be necessary to fully accomplish her objectives.

Recommendation for the Mission

2.2.3 The CO should develop an active out call program.

Mission Response

2.2.3 Implemented.

ADMINISTRATION PROGRAM

3.1 Physical Resources

Chancery

3.1.1 The Chancery is in an older building erected in 1820. The building has two levels and a basement. When the lease was originally negotiated, there was a possibility that the Australians would co-locate with the Mission. This did not happen and the decision was taken to rent only the main and second floors of the building. Consequently, the lease, which runs until 2004, states that the arrangement does not include the basement; that the agent of the landlord can have access to the basement upon giving three days notice; that the agent can store business records in the basement; and, that the Mission can at some future date rent the basement. However, a complication has arisen due to the death of the agent. The agent's estate has no interest in the basement, prompting the landlord to seek rental revenue from the Mission. Failing this, the landlord intends to rent to the first interested party.

3.1.2 ***

3.1.3 *** The Mission has considered many elements which include security, future space requirements, storage requirements and access to utilities.

3.1.4 *** The Mission advised the interested parties at HQ of the situation on April 25, 2001. The Audit Team debriefed interested parties at HQ, but the situation remains unresolved.

Recommendation for the Mission

3.1.5 In consultation with RAM, SRD and ISD, immediately do a cost/benefit analysis where the Department's long term rental cost of the basement is compared to the one time cost to alleviate all the security concerns in the event that the basement is rented to another party.

Mission Response

3.1.5 A contractor familiar with the Mission states that the renovations required to accommodate another party using the basement would reduce the useable portion of the ground floor by 25 to 30 percent *. Control of the basement by another party would also put the controls for all our utilities out of reach. At a time when this report's recommendations call for expanding staff (and thus space**

requirements), renovations causing space reductions seem neither practical nor cost-effective.

SRS Comment

3.1.5 Rental of basement - a Project Memorandum (PM) will be presented on August 14, 2001 to seek approval to rent the basement *.**

Mission Note

3.1.5 Following approval of the Project Memorandum in August, the Mission commenced negotiations with the landlord for the rental of the basement. In late December 2001, the landlord agreed to amend the existing lease to include the basement for an additional rent of US \$500/month.

3.1.6 There are three health and safety concerns in the Chancery that need to be addressed. *** The third concern is a sanitary/storm sewer system problem that affects all buildings in the downtown core area. The older sanitary/storm system does not have the capacity to handle the run off after a heavy rainfall. The result is frequent backup of waste into the basement accompanied by toxic and flammable methane and radon gases. The Mission was told by a private engineering firm that this problem was affecting all buildings in the city core and until the capacity of the sanitary/storm sewer system is increased, the Mission should install a sealed electric fan in the basement window to help exhaust the gases.

Recommendation for the Mission

3.1.7 * and purchase a sealed electric exhaust fan for the basement window.**

Mission Response

3.1.7 * Now that we have access to the basement a sealed exhaust fan will be installed in the coming days.**

Staff Quarter

3.1.8 The HOM Staff Quarter (SQ) is a leased accommodation that was viewed during the audit visit. It is located in a residential area within a ten minute walk from the Chancery. It is a small, two story house that was built in 1930. The house has a small basement apartment with a private entrance and it is currently occupied by a tenant. The house is modest compared to other G7 members. The dining room has a table for twelve. However, the room can only seat ten comfortably and the living room area

cannot accommodate this many guests before and after a dinner. The house has a small and tight living space and kitchen. It is not conducive to representational responsibilities. The wiring has not been upgraded since it was installed and there is a water leakage problem around the patio door frame. Because of the anticipated costs of a required refit, the Mission should monitor the residential housing market to assess the cost of a suitable replacement.

Recommendation for the Mission

3.1.9 Compare the cost of the SQ fit-up and the opportunity costs associated with a small representational area to the cost of replacing the SQ with a property that does not require a fit-up and provides a larger representational area.

Mission Response

3.1.9 The Mission requested two reputable real estate firms to alert us whenever suitable properties come on the market. Zagreb still suffers from a housing market characterized by exaggerated lessor expectations of what foreigners are prepared to pay for marginal properties. In the autumn several properties were viewed but only one met representational area requirements. Following Senior Management viewing of the existing SQ, Headquarters' authority, in principle, was given to submit a proposal to replace the SQ on the basis of the costs involved with the one property considered to meet representational requirements. The proposal was submitted in mid-November and awaits Headquarters' disposition.

3.2 Administrative Support for Category III Missions

3.2.1 The HOM believes he is receiving inadequate administrative support for his Category III Mission. He believes that the entitlement for certain amenities should be increased because he is operating a full service Mission, in all but name, without the tools to do the job.

3.2.2 According to the Departmental Property Manual, Zagreb is a Category III Mission. The Departmental Property Manual defines Category I, II and III Missions as follows:

- Category I: Large missions which may also be an administrative hub for one or more small missions which would be regarded as their spokes;

- Category II: Medium-sized missions with a resident HOM. May serve as an administrative hub for smaller locations, or be designated as a small mission or spoke; and,
- Category III: Micro-mission or office; normally a satellite office. In many cases there is no resident HOM.

3.2.3 The level of Category determines the level of administrative support provided to the Mission. It determines the size of the OR formal, family and ancillary space. In the case of a Category III Mission, there is no entitlement for an OR. The Audit Team believes that the current category needs to be reviewed.

Recommendation for RBD

3.2.4 **RBD, in consultation with other Departmental stakeholders, should review the current operational requirements of Zagreb and determine if it warrants an administrative Category II rating.**

RBD Response

3.2.4 **The classification of Zagreb as a Category III Mission does not provide the Head of Mission with the necessary tools to achieve his goals and to carry out his mandate. Moreover, the distinction between Category III and Category II Missions is not transparent to any clients of the Mission nor to the receiving country. The designation of micro-Missions with resident Ambassadors as Category III Missions is therefore a systemic problem.**

Unfortunately, there are currently no Departmental criteria by which Zagreb's Category could be raised to Category II and funded accordingly. Therefore, the Category III designation is retained for Zagreb until such time as systemic changes are made or until cumulative incremental improvements to the Mission's capacity by the Bureau or by the Department mean that Zagreb *de facto* becomes a Category II Mission. This means that the Bureau, in consultation with the Mission, will assist the Mission in providing the highest priority tools to improve operational effectiveness.

SRS Comment

3.2.4 **It should be noted that a change of Category involves an increase in support from SRD and it is not recommended when compared with other similar Missions (both in terms of CBS contingent and mandate). Therefore it would be expected that the Branch be held**

responsible for costs to be incurred for a change of residence, i.e. the furniture, silverware and interior design. In addition, there would likely be an increase in annual rental and O&M costs that should be taken into consideration as part of the consideration involved in the decision making process.

SIV Comment

3.2.4 Circular Document - Admin. No 3/96 (SRM) and the Departmental Property Manual Chapter 6-1 - April 1996 (SRD) define a Category I, II and III Mission and assign a category level to all Missions (Annex A and Appendix 19-1 respectively). The Circular Document and the manual, however, are silent on Mission growth issues and the impact on the assigned category and funding levels. SIV has discussed the issue with concerned stakeholders and the consensus is that to formally change a mission category the bureau would prepare a business case and, through SMP, present it to the Management Committee for approval. The category and funding levels would then be changed to reflect the decision of the Management Committee.

3.3 Finance

Banking

3.3.1 The Mission has a Canadian and a US dollar bank account. The US dollar bank account is primarily used to process Visa fees while the Canadian dollar bank account is used to process Consular fees. Visa fees are paid in US dollars because instructions to the applicant request that payment be made in US dollars at the local bank. The bank issues a receipt to the applicant who attaches it to the application form. Canadian dollars are readily available in Croatia and therefore present no inconvenience for the applicant to pay for their Visa in Canadian dollars. On the few occasions that the Mission requires US dollars, it can convert Canadian to US dollars. The bank service charge is relatively small compared with the time and effort now spent by the Mission to administer the US dollar bank account.

Recommendation for the Mission

3.3.2 In consultation with Budapest and Immigration in Vienna, instruct applicants to pay their Visa fees at the local bank in Canadian dollars instead of US dollars.

Mission Response

- 3.3.2** A Canadian dollar account was established in the autumn. Visa fees are now being paid in Canadian Dollars. In addition, a Croatian Kuna account was also requested. Once the Kuna account is established, it will be used for Mission operating expenses (thus avoiding repeated currency exchange charges) and the US Dollar account will be dropped.

Mission Petty Cash Advance

- 3.3.3** The Mission has established a petty cash advance of 40,000 Kuna. Suppliers are paid from this account. As each payment is made from the advance, the amount paid in local currency is converted to US and Canadian dollars using the exchange rate of the day. Instead of converting on a transactional basis the conversion need only be completed when the advance is replenished. This will simplify the accounting process by eliminating an unnecessary step.

Recommendation for the Mission

- 3.3.4** Payments from the petty cash advance should only be converted to Canadian dollars when it is replenished from the Canadian dollar bank account.

Mission Response

- 3.3.4** Implemented.

Cash Management

- 3.3.5** A review of the Mission bank accounts indicated that the cash balances and service charges are exceptionally high. The high cash balances and service charges can be reduced, in consultation with Budapest, with improved cash management.

Recommendation for the Mission

- 3.3.6** The Mission, in consultation with Budapest, should improve the cash management of its bank account.

Mission Response

- 3.3.6** A letter has been sent to the bank requesting reduced “diplomatic discount” fees. The bank has now informed us that lower rates will

be put into effect commencing January 1, 2002. Better cash management will be achieved with the addition of the Bookkeeper and the IT system up-grade.

The key to better cash management lies in the provision of better and more timely documentation between the Hub and Spoke. The Hub is now providing monthly budget reports of certain line objects but timely information from the Spoke will only be possible once the recommended Bookkeeper is in place and the SIGNET up-grade is completed.

Invoice Processing

3.3.7 The Mission faxes all invoices to Budapest for financial coding and input into IMS. If Budapest is unable to code an invoice, it contacts the Mission for an explanation. An alternative to this procedure is for Zagreb to record all invoices on a spreadsheet assigning the financial coding, payee name, amount and description. The spreadsheet can be electronically forwarded to Budapest for IMS input. The advantage of a spread sheet is that it will reduce the cost and time to fax invoices and enables the Mission to better monitor its budget. The spreadsheet will provide a record of expenditures that can be compared to the budget to determine the available balance. The Mission now must contact Budapest to determine the available budget.

Recommendation for the Mission

3.3.8 In consultation with Budapest, record all expenditures on a spreadsheet and send it electronically to Budapest for IMS input.

Mission Response

3.3.8 Will be implemented once the new bookkeeper is in place.

Delegated Signing Authorities

3.3.9 As in all small Missions, there arises, on occasion, a situation when only one Designated Financial Officer is available to sign Section 33 of the Financial Administration Act (FAA). This Officer may be the same one who initially signed Section 34 of the FAA. This situation occurs in Zagreb. The Mission does not have a work-around procedure when the Officer available is the same one who signed Section 34. As result, the Officer is signing both Sections 33 and 34 for the same transaction.

3.3.10 There are three options available to the Mission. It can wait until the other Officer is available, send the document to the MCO in Budapest for signing, or

designate the LES Administrative/Consular Assistant authority up to \$10,000 after appropriate training has been provided.

Recommendation for the Mission

3.3.11 In consultation with Budapest, determine which option is best for them to prevent the same person from signing both Sections 33 and 34 of the FAA.

Mission Response

3.3.11 The LES Office Manager has received the appropriate training to permit the designation of signing authority up to \$10,000. Now both Sections 33 and 34 are signed before invoices are paid.

MISSION RESOURCES FACT SHEET

Human Resources (FTEs)

PROGRAM	CBS	LES	TOTAL
HOM Office	1		1
Political Affairs	1	1	2
IBD		1	1
Development		1	1
Immigration		1	1
Administration/Consular		2	2
Total	2	6	8

Physical Resources

ASSETS	OWNED	LEASED
Chancery		1
SQs		2
Vehicles	2	

Financial Information

LES Salaries	\$202,909
Operational & Capital	469,752
CB Overtime	4,000
Total	\$676,661