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**Audit of Translation Bureau Performance
Indicators**

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Summary

Authority for the Project

This audit is part of the Audit and Review Plan of the Audit and Review Branch, approved by the Chairman of the Audit and Review Committee in February 1998.

It should be noted that this is the first internal audit project at PWGSC to cover the performance measurement system and results-oriented management.

Objectives and Scope

The audit determined whether: (1) the performance measurement system put in place by the Translation Bureau consists of a set of performance indicators that are relevant and useful in relation to management monitoring and accountability; (2) these measurements cover all aspects of the Bureau's business plan, in particular, its mission and strategic objectives, planned results, performance (with respect to client service, quality of products and services), operational requirements appropriate to organizational performance (efficiency, financial framework of activities and information technology) and measurements of organizational health (innovation, satisfaction and development of employees); (3) information on performance is reliable and credible, based on communication of expected results and the Bureau's performance and achievements.

Background

In the interest of improving their performance, a number of organizations are adopting new management techniques. In many cases, however, they fail to modify their performance management system sufficiently to adapt it to requirements relating to the environment, their new needs, and relations and events. The current emphasis on profit-making and performance, together with budget constraints and increasing requirements for efficient service, have meant that the Bureau's managers have had to monitor their managerial action and account for results, activities and resource utilization in a more thorough and orderly manner.

We examined how the Bureau has established a performance measurement system for monitoring its program performance, in order to meet administrative and parliamentary accountability requirements and support the daily management of its internal affairs, with a view to strategic management and continuous improvement.

Key Findings

- ☺ The Translation Bureau has a mission statement, six sets of strategic objectives and a business plan that have been set out clearly and precisely, are interrelated, match with the Bureau's organizational structure and have been widely disseminated. All managers consulted are familiar with the content of the Bureau's business plan and are committed to pursuing the Bureau's strategic objectives. The performance indicators established reflect a balanced scorecard, taking into account various financial considerations, economic efficiency, recognition of human resources and the legitimacy of the organization, all of which are geared toward the Bureau's long-term survival.
- ☺ Each performance indicator or critical factor for success should be accompanied by a target.
- ☺ The Bureau's senior managers were actively involved and all took part in developing the performance measurement framework. They provided solid leadership in the pursuit of the performance objectives set. We noted that the Bureau's management team is made up of experienced people who are capable of implementing the performance measurement framework, which should make it possible for the Bureau to achieve its strategic objectives.
- ☺ Bureau management took advantage of opportunities to communicate the Bureau's performance at meetings with employees.
- ☺ The re-engineering exercise known as "The Future Is Ours" helped increase efficiency and reduce the Bureau's operating costs.
- ☺ At the start of the audit, the Bureau had not yet determined a formula for calculating the cost per word translated in-house and externally and the allocation of overhead was still a problem. At the end of the project, however, a model had been endorsed by the various sectors of the Bureau.
- ☹ Information for the numerous and varied decisions that Operations Sector managers need to make is still not available from the management dashboards.
- ☹ The Professional Services Directors (PSDs) manage veritable enterprises with 200 to 300 employees generating sales of \$20 to 30 million and yet they do not have the services of a cost accounting analyst to carry out profitability and costing studies or conduct financial simulations to determine the impact of decisions that they are about to make.
- ☹ Bureau management should pay attention to its outstanding accounts receivable. *(The Bureau is currently implementing corrective measures.)*
- ☺ While awaiting the findings of the sectoral committee on the translation industry in Canada to which the Bureau, Industry Canada and Human Resources Development Canada belong, the Bureau should continue its efforts to position itself on the international translation market.
- ☺ The average age of translators is 46.2, and 150 translators are eligible for retirement without penalty between now and 2002-03. Currently, about 60 students are taking part in a training program. The University Partnership Program holds out the promise of jobs for young Canadians, and is designed to guarantee the supply of translators and to ensure that the Bureau can meet the demand for translation in Canada and plays an active part in the growth in economic activity, which will benefit both the private sector and all Canadians.
- ☹ The Translation Bureau is not in a strong position when it comes to obtaining financial support or a partner able to assume some of the costs associated with the University Partnership Program. The Bureau is the only employer of people in the TR category, and the departments do not derive any direct benefit from the expertise in translation, whereas with

the FORD/IARD Program for financial management trainees, for example, they do benefit directly. The Bureau should be commended for its courage and determination in pursuing the objectives of the Partnership Program because it alone has to assume the costs while, as a Special Operating Agency (SOA), it works to become financially self-sufficient.

Conclusion

One point that should be emphasized is that the Bureau has done well since April 1, 1995, when it became an SOA, despite the optionality of its services. Analysis of the volume of words translated by the Bureau in the past four years shows steady increases each year. Currently, the demand for translation handled by the Bureau exceeds, to all intents and purposes, the level of activity when Bureau services were mandatory.

The performance measurement system put in place at the Bureau has been successful because there is a common thread running through the mission, the strategic objectives and the performance indicators established for the Bureau's business activities. Furthermore, the Bureau's senior managers have brought together a winning combination of conditions and lessons drawn from organizations that have implemented a performance measurement system.

The auditors discussed the audit observations and recommendations in this report with all the members of the Bureau's management team. The team generally agreed with the observations relating to the items examined during the course of our audit. In several instances, Bureau management implemented some of the corrective measures mentioned in the audit report even before it was released.

Recommendations

1. *Bureau managers should set a target for each performance indicator in the performance measurement framework. These targets should subsequently be incorporated into the annual work objectives of the PSDs and their unit heads.*
2. *The Bureau should develop a formula for calculating the cost of each activity entailed in the translation of a text, both in-house and externally, using data from sources such as the Activity Management System (AMS). The overhead associated with such activities should also be taken into consideration. This should make it possible to identify areas where further savings can be made.*
3. *The quality of the costing information available for management purposes should be improved. It would be to the Bureau's advantage to use the data from the AMS in conjunction with the information already available in the management dashboards.*

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4. *The PSDs should have resources at their disposal to conduct strategic analyses of the information contained in the different information systems. Consideration should be given to the possibility of having such resources seconded from the Bureau's Finance Directorate.*
5. *The Bureau should give more attention to managing and collecting outstanding accounts. This should be a major concern of the Bureau's managers.*
6. *Based on an analysis of the Bureau's external environment, we feel it is important that the Bureau continue to play a key role in expanding its operations in the international arena in order to prevent foreign firms from making inroads into the Canadian translation market. This could eventually result in the creation or maintenance of quality jobs for Canadians.*
7. *Senior management of the Department should consider providing financial support for the initiative undertaken by the Translation Bureau to prepare the next generation of translators and promote the creation of jobs for young Canadians.*

1 Introduction

1.1 Authority for the Project

This audit is part of the Audit and Review Plan of the Audit and Review Branch, approved by the Chairman of the Audit and Review Committee in February 1998.

1.2 Objectives and Scope

The objectives were to determine whether:

- ↗ the performance measurement system put in place by the Bureau consists of a set of performance indicators that are relevant and useful in relation to management monitoring and accountability. To be relevant, this performance measurement framework must include financial measurements as well as operational measurements of client satisfaction and internal operations.
- ↗ these measurements cover all aspects of performance contained in the Bureau's business plan, focussing in particular on:
 - ✓ the objectives, strategy statement, key initiatives and expected results;
 - ✓ performance with respect to quality of client service activities, quality of products and services and the ways in which services are provided;
 - ✓ operational requirements underlying organizational performance, such as efficiency, financial framework of activities and information technology;
 - ✓ measurements of organizational health relating to innovation, employee satisfaction and employee development.
- ↗ information on performance is reliable and credible, based on communication of expected results and the Bureau's performance and achievements.

1.3 Background

In the interest of improving their performance, a number of organizations are adopting new management techniques. In many cases, however, they fail to modify their performance management system sufficiently to adapt it to requirements relating to the environment, their new needs, and relations and events. The current emphasis on profit-making and performance, together with budget constraints and increasing requirements for efficient service, means that the Bureau's managers have to monitor their action and account for results, activities and resource utilization in a more thorough and orderly manner.

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We examined whether the Bureau had established a performance measurement system for monitoring its performance, in order to meet administrative and parliamentary accountability requirements and support the daily management of its internal affairs, with a view to strategic management and continuous improvement.

2 Issues Examined During the Detailed Examination Phase

2.1 Introduction

As a result of the work done in the preliminary survey phase, it was decided that we should continue our work with the detailed examination phase. During this phase, we were able to pay particular attention to certain management issues relating to the implementation of the Translation Bureau's accountability framework. A description of the issues examined is presented below.

Some critical factors for success identified by the Bureau did not seem to be accompanied by quantifiable targets. For example, the desired increase in productivity, reduction in overhead, increase in market share and level of client satisfaction did not seem to have been identified.

We detected confusion in the Bureau managers' use of terms relating to results-oriented management, cost accounting, the notions of direct and indirect costs, and cost drivers.

It is not possible to determine the cost of each activity performed by the translators from the management information system. In addition, the breakdown of indirect costs is not always consistent.

The organization of functions relating to financial and cost accounting at the Bureau is relatively complex.

The Operators Sector managers should have more information on costing to facilitate decision making.

Limited resources seem to be devoted to the strategic analysis of information. For example, the directors do not have a cost analysis function available that would enable them to conduct various profitability or costing studies. However, a conversation with the Director of Finance revealed that qualified resources were available in his unit to conduct such analyses, which would assist the Operations Sector managers.

During the detailed examination phase, the auditors applied a set of audit criteria relating to the following areas:

1. ***Describe the context and the strategies adopted*** - Ensure that all managers and employees in all sectors of the organization understand and embrace the Bureau's mission, organizational objectives, strategies and critical factors for success.
2. ***Clearly set out the performance expected*** - Ensure that the expectations in relation to performance are set out clearly and precisely by Bureau senior management and are communicated to all sectors of the organization.

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3. *Communicate the performance results in relation to the expectations* - Ensure that the achievements are compared with the expected results.
4. *Communicate performance information that is balanced and reliable* - Ensure that the information provided with respect to performance is understandable, relevant, balanced and reliable.

3 Findings, Conclusions and Recommendations

3.1 Bureau Profile, Mission, Strategic Objectives and Performance Indicators

3.1.1 Profile

The Translation Bureau became a Special Operating Agency (SOA) in April 1995. While translation services (in the two official languages and in over one hundred foreign languages) provided by the Bureau for the other federal departments and agencies became optional and cost recoverable, the Bureau remains the sole supplier of translation and interpretation services for Parliament as they are funded by parliamentary appropriation. It also continues to standardize the terminology used in the federal government.

3.1.2 Mission

The Bureau's mission is to provide translation and interpretation services for Parliament and public institutions in order to help them serve Canadians in the official languages and other languages, and to standardize and disseminate terminology in the federal public service.

3.1.3 Strategic Objectives

The strategic objectives contained in the Translation Bureau's business plan for the 1998-99 fiscal year are as follows:

- ✓ Reach the break-even point by March 31, 2002.
- ✓ Provide sensibly-priced, quality products and services that meet specific client needs.
- ✓ Ensure clients' loyalty; increase the Translation Bureau's share of the federal market.
- ✓ Strengthen employees' sense of belonging through partnership and recognition.
- ✓ Prepare succession in translation, interpretation and terminology in partnership with the industry, universities and colleges, and other federal departments.
- ✓ Provide quality terminology products and services that meet specific needs of the federal public service.

3.1.4 Performance Indicators Established by the Bureau

It is crucial to select the best possible set of performance indicators to guarantee that the desired results will be attained. In order to be able to measure its performance and to pursue each of the strategic objectives it set for itself, the Bureau identified the following critical factors for success:

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STRATEGIC OBJECTIVES	PERFORMANCE INDICATORS
Reach the break-even point by March 31, 2002	Market share maintained Productivity increased Overhead reduced
Ensure clients' loyalty, increase the Translation Bureau's share of the federal market, build successful business relationships with the provinces, the private sector and international organizations	% of stable clients % of clients at risk Change in annual sales figures: - federal - provincial - private sector - international
Provide sensibly-priced, quality products and services that meet specific client needs	Number of clients Level of client satisfaction Services provided meet clients' needs
Strengthen employees' sense of belonging through partnership and recognition	Implementation of the incentive plan Team spirit Employee morale (in-house survey) Number of grievances
Prepare succession in translation, interpretation and terminology in partnership with the industry, universities and colleges, and other federal departments	Number of recruits at the Bureau Change in the average age of TRs Number of students registered in university/college translation/interpretation programs Percentage of business assigned to the private sector
Provide quality terminology products and services that meet specific needs of the federal public service	Successful implementation of an up-to-date version of TERMIUM Level of client satisfaction Number of TERMIUM users

During the audit project, the Director General, Integrated Services, allowed us to comment on the document dealing with performance measurement at the Translation Bureau, which was presented to the PWGSC Business Committee in February 1999. The document provided a wealth of useful information on the Bureau's financial and operational performance, its business volume and sales figures, the evolution and make-up of its client base, and translator demographics.

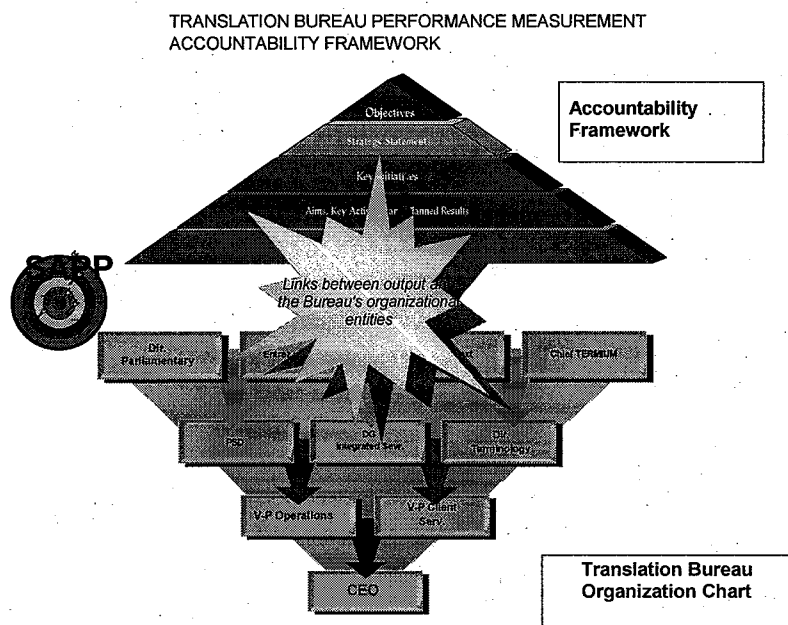
Conclusion

The Bureau has a mission statement, strategic objectives and a business plan that have been widely disseminated. In addition, it has an accountability framework that has been approved by PWGSC senior management. The Bureau's mission, objectives and strategic statements are

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interrelated. All the managers consulted during the audit were familiar with the content of the Bureau's business plan, and we feel that they are committed to pursuing the strategic objectives set out for the Bureau.

The Bureau's strategic objectives are expressed clearly and precisely in terms of the results that are to be achieved. The managers consulted agree that the survival of the organization depends on the Bureau's reaching the break-even point by March 31, 2002 and on an arsenal of means for achieving this.



3.2 Performance Measurement Framework

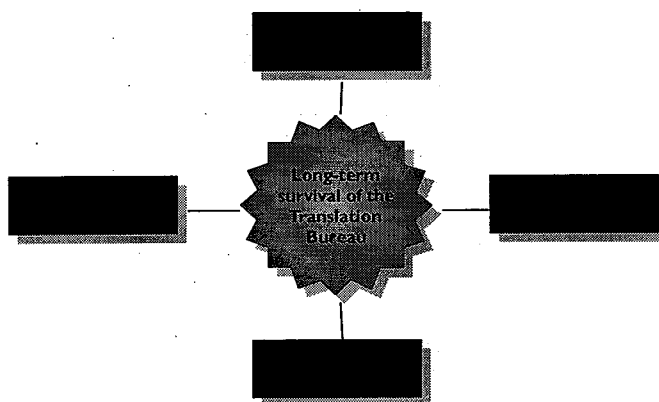
Every organization has to establish and communicate performance measures that reflect its particular business strategy.

Dr. Robert S. Kaplan, Harvard Business School

The Bureau's senior managers were actively involved and all took part in developing the performance measurement framework. As a result, in its current form, the framework sets out the Bureau's corporate mission and the six main sets of strategic objectives clearly and precisely. In the opinion of the auditors, the performance measurement system put in place at the Bureau has been successful because there is a common thread running through the mission, the strategic objectives and the performance indicators established.

We noted that the performance measurement system put in place at the Bureau is an integral part of the management process in effect in this organization. When we examined the performance indicators established, we found they reflect a balanced scorecard, which takes into account various financial considerations, economic efficiency, recognition of human resources and the legitimacy of the organization. These indicators are geared toward the Bureau's long-term survival.

COMPONENTS ESSENTIAL TO THE TRANSLATION BUREAU'S SURVIVAL



In the Operations Sector, however, none

of the nine (9) unit heads interviewed during the detailed examination phase was familiar with the critical factors for success (which the auditor calls "performance indicators") contained in the Bureau's performance measurement framework. The managers also mentioned that they had never seen the indicators in the schematic form presented to the PWGSC Business Committee. During our meetings with them, the managers acknowledged that they recognized the six sets of indicators relating to the strategic objectives underlying the Bureau's corporate mission and that they had heard about them in one form or another in numerous communications from Bureau senior management.

Some of the managers even asked the auditor for a copy so that they could adopt them and make use of them during normal translation operations in their unit. They also felt that the performance measurement framework would be a useful tool in the business plan exercise, which was under way at the time of the detailed examination phase.

The auditor noted that each factor for success should be accompanied by a target. The unit heads also recognized the benefit of setting targets. Targets would provide a clearer focus for their actions and at the same time would enable them to make more effective use of the resources at their disposal. The targets should be included in the annual work objectives set individually for the directors and unit heads. When the audit results were released, Bureau senior management

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indicated that setting and communicating targets was the next stage in the implementation of the performance measurement framework.

Our review of the documents used to prepare the Operations Sector business plan for 1999-2000 showed that management's intention was to set operational targets for each directorate to ensure that the performance indicators set by the Bureau were achieved in their entirety.

3.3 Involvement of Managers

The involvement of middle managers remains one of the best ways for an organization to create a corporate culture that will eventually become conducive to performance measurement. When middle managers take part in developing the performance measurement framework, they are more likely to embrace the performance measurement system.

In the past year, the Operations Sector filled its five director positions. The consensus is that these positions are of key importance in the Bureau's transition to financial self-sufficiency. All the positions were filled by employees with more than 20 years' experience at the Bureau. In fact, they were recruited by the Bureau at the outset of their career in translation.

They have demonstrated firm loyalty by devoting their entire career to the Bureau. Today they are masters of their craft and are in a position to take sound management action based on their intimate knowledge of operations and corporate values and of the Bureau's history. One vice-president we met during our work admitted that it would have been difficult and even risky for the Bureau to cut its teeth as an SOA if it had not been able to count on the collective memory, insight and intuition of the directors. They are the ones who enabled the senior managers to lay the foundation of the organization at a time when information was still fragmentary and limited.

During our consultations with the Operations directors, they indicated that they did not feel they were as much a part of the Bureau's operations management team as their colleagues from Terminology and Parliamentary. In our opinion, the Operations directors hold strategic information about the Bureau's translation operations. Their absence from the Translation Bureau's senior management team deprives this community of strategic information for decision making.

Recommendations

1. *Bureau managers should set a target for each performance indicator in the performance measurement framework. These targets should subsequently be incorporated into the annual work objectives of the PSDs and their unit heads.*
2. *The CEO should expand the operational management committee to include the Operations Sector directors in the Bureau's senior management team.*

3.4 Leadership of the Management Team

Only objectives that are measured will be achieved.

American Society for Public Administration (1996)

Performance Measurement: A Work in Progress

The efforts that the Translation Bureau is making to find more efficient ways to deliver its services presents a number of challenges. Optionality and initiatives such as alternative service delivery also create a challenge because the departments can now use outside resources to meet their translation needs. From a strategic standpoint, the Bureau is preparing to respond to the new challenges by repositioning itself, expanding its market, striving to respond to clients' needs more effectively and placing greater emphasis on service.

The audit revealed that Bureau senior management had provided solid leadership in the pursuit of the performance objectives set.

The development, implementation and maintenance of a system of performance measurement and results-oriented management represent a major commitment on the part of an organization. During the audit, we noted that the Translation Bureau's management team was made up of experienced people who are capable of implementing the performance measurement framework, which should make it possible for the Bureau to achieve its strategic objectives.

All the employees consulted during the audit mentioned that the Bureau senior managers were capable of putting together a winning combination of conditions to implement a performance measurement framework. Examples are as follows:

- open communication with employees concerning achievements and progress toward attainment of the Bureau's strategic objectives;
- implementation of positive, forward-looking performance measures characteristic of continuous learning organizations;
- the Financial Incentive Plan, which is designed to increase productivity.

Bureau management took advantage of opportunities to communicate information about the Bureau's performance at meetings with employees. In a special edition of *The Journal* issued in February 1999, the CEO gave another positive report of the Translation Bureau's achievements in 1998-99 and outlined the challenges in store for all Bureau employees.

The Bureau's transition to an SOA caused extensive upheaval throughout the organization and necessitated the development of a new corporate philosophy. Bureau senior managers tackled the huge challenge of managing this radical, far-reaching change head-on.

Senior management demonstrated considerable ingenuity in implementing activities designed to maintain organizational health. *International Translation Day*, publication of *The Journal*, the *Jérômiades* (St. Jerome's Day team quiz contest), *The Journal On-Line*, the *Gala*, and the *VP News Release* are all examples of concrete action taken by management to provide quality information for all employees. In short, the approach the Bureau endeavoured to favour was to

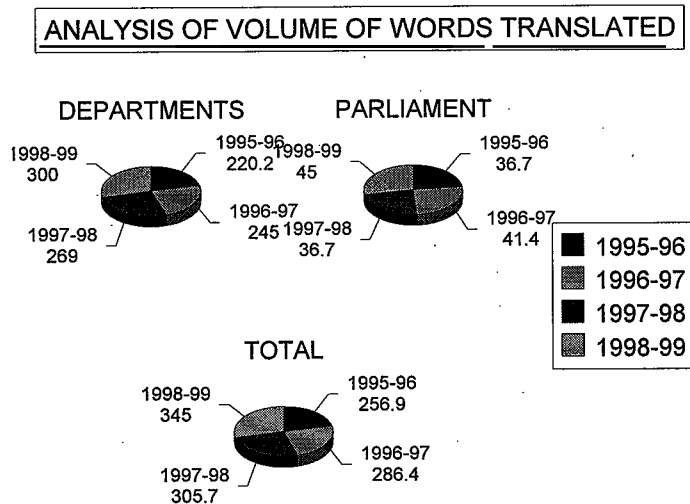
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draw on experience, become familiar with and understand the environment, and learn to adapt to change.

Mention must also be made of how quickly the staff began implementing the Bureau's performance measurement system. All the key parties at the Bureau recognized the sense of urgency in implementing the performance measurement framework. Not long after becoming an SOA, they realized the need for a performance measurement structure to ensure that the organization would survive, that it would continue to be on the leading edge of the translation market and that a common thread would run through the Bureau's mission, strategic objectives, performance indicators and management activities.

3.5 A Look Back at Bureau Accomplishments

One point that should be emphasized is that the Bureau has done well since April 1, 1995, when it became an SOA, despite the optionality of its services. Analysis of the volume of words translated by the Bureau in the past four years shows steady increases each year. In 1998-99, the Bureau recorded an increase of roughly 13% in the number of words translated over the previous year.



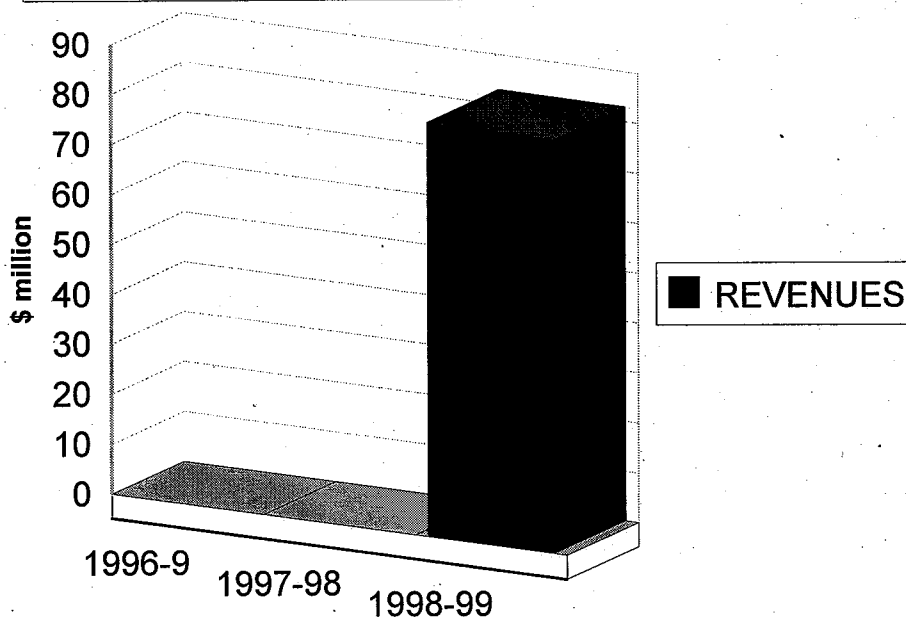
Currently, the volume of words translated is higher

than when it was mandatory for the client departments to do business with the Bureau. The Vice-President, Client Services, estimated that the Bureau's share of the official languages translation market amounted to approximately 70% of the federal government market.

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For the fiscal year ending March 31, 1999, the Bureau translated roughly 358 million words, and its sales will amount to roughly \$83.5 million, an increase of about 13% over 1997-98.

CHANGE IN VOLUME OF BUSINESS



In 1998-99, the Bureau will process close to 200,000 requests for translation, a 35% increase compared with 1997-98, when it handled 145,654. Translation for the various federal departments and agencies and Parliament represents roughly 97.7% of the Bureau's translation volume.

3.6 Re-engineering of the Bureau's Business Processes

While demonstrating its ability to increase its volume of business, the Bureau also had to make substantial cuts in its overhead costs. Significant efforts were made in recent years to reduce the number of reporting levels and unit heads. The re-engineering exercise known as "The Future Is Ours" helped increase efficiency and reduce the Bureau's operating costs.

The objectives pursued by the re-engineering group were to streamline workload management, reduce the number of roles taken on by translators, decrease quality control costs, make efficient use of documentation and terminological resources and promote teamwork. A number of non-TR positions (workload allocator, client services advisor, proofreader, professional support officer) were created to increase translator productivity. The introduction of the Financial Incentive Plan on December 1, 1998 is also closely tied to the Bureau's goal of breaking even.

The Bureau is reaping the benefits of the various measures implemented to increase cost-effectiveness. According to information provided by the Bureau, translator productivity is up approximately 15% from 1997-98.

3.7 Direct Costs of In-House Translation

The objective for translators now is to generate _____ times their salary, and a considerable number have already reached this threshold. Generating _____ times their salary means that translators will be able to produce an average of _____ words per year or _____ in revenues (_____ words x _____ cents per word translated). Therefore, with a translator's annual average salary being \$52,500, the direct cost per word translated in-house is _____ including a factor of 25.5% for overhead costs. The Bureau's objective is _____. The Bureau could therefore introduce the concept of "standard in-house costs" and analyse any variance between such standard costs and actual costs.

The analysis of management dashboards produced by the Business Development Directorate reveals that the productivity of TRs who translate for the 11-month period ending February 28, 1999 amounted to _____ down from _____ at the end of the previous year. The total TR payroll went up, on the one hand, because of the salary increase under the new collective agreement and, on the other hand, because some 100 new TRs who need to be trained were hired, which has an impact on productivity.

3.8 Direct Costs of Contracting-Out

Similarly, the Bureau could establish a "standard cost per word translated externally" by determining the average price per word paid to free lances. Currently, the objective for the cost per word translated externally is _____ cents. Therefore, the responsibility centres could use this amount as a "standard cost" and any unfavourable variance could be analysed and adjustments made.

Our analysis of the management dashboards for the period ending December 31, 1998 reveals that the average direct cost per word translated externally was about _____ compared with the objective of _____. This unfavourable variance can be partly explained by the law of supply and demand, as the latter far exceeds the former, driving up market prices.

In 1998-99, close to 40% of the Translation Bureau's revenues were generated by external production. The contracting-out rate was back up to the level recorded before the Bureau became an SOA. In fact, the substantial increase in translation demand was almost entirely absorbed by free lances. Contracting-out expenditures should amount to roughly \$22 million for 1998-99.

3.9 Formula for Calculating the Cost of Translation Activities

In the preliminary survey report, we noted that the Bureau had not yet determined a formula for calculating the cost per word translated in-house and externally and that the allocation of overhead was still a problem.

During the detailed examination phase, however, the Director General, Integrated Services, presented us with a model that had been endorsed by the various sectors of the Bureau.

We also noted that the Bureau is moving farther and farther away from billing by the word. The intention is to change over to hourly billing as quickly as possible.

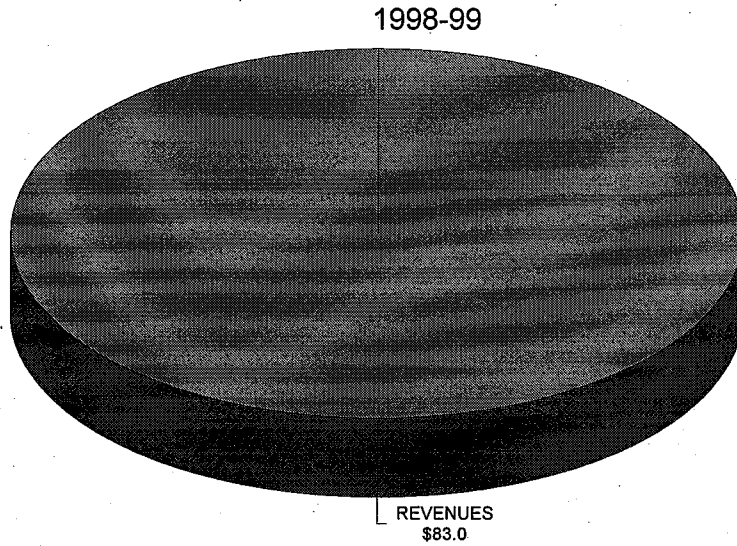
Recommendation

3. *The Bureau should develop a formula for calculating the cost of each activity entailed in the translation of a text, both in-house and externally, using data from sources such as the Activity Management System (AMS). The overhead associated with such activities should also be taken into consideration. This should make it possible to identify areas where further savings can be made.*

3.10 Method of Allocating Overhead

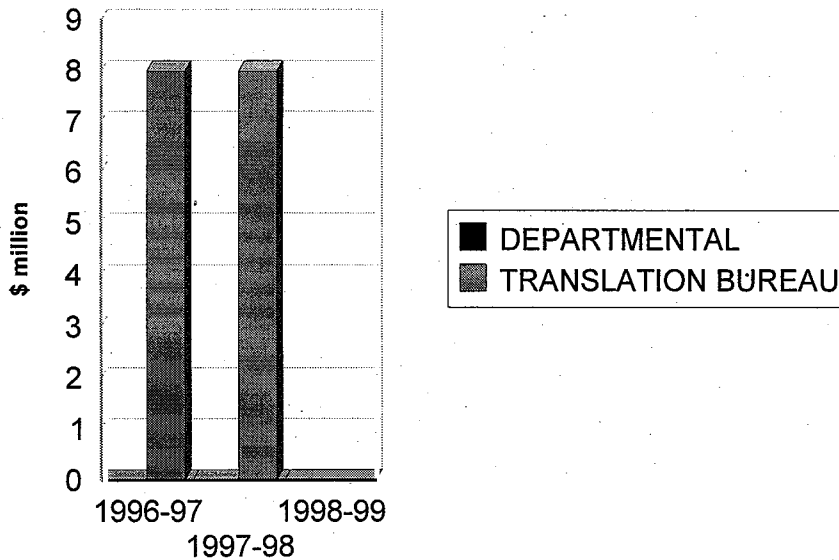
We also pointed out in the preliminary survey report that the method used to allocate the Bureau's overhead, which was based on the number of TRs working in a unit, should be reviewed because it significantly penalized units that did little contracting-out. We suggested that the Bureau consider allocating overhead using a method based on the dollar value of sales budgeted for each unit instead. It should be mentioned that there is no really perfect method for allocating overhead.

COMPARISON OF OVERHEAD AND REVENUES



During the detailed examination phase, Integrated Services developed a method based on the number of in-house TRs and the equivalent number of freelance TRs. This method is similar to what we were proposing. Using this key for allocating overhead, some responsibility centres have seen their contribution margin change from positive to negative.

CHANGE IN OVERHEAD



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We also noted that some units boasted about making a profit even though the Bureau was registering a loss of about \$9 million. It is thus important for the Bureau to allocate overhead to each of the units so that they do not lose sight of the expenses and they realize that the battle is not yet won.

In 1998-99, each dollar earned by the Bureau entailed _____ in corporate services and head office overhead. For 1997-98, the ratio was _____ cents in overhead for each dollar in revenue. Therefore, in 1998-99, the Bureau managed to reduce overhead by \$1.1 million from the 1997-98 level.

3.11 Organization of the Finance Function

The organization of the finance function at the Bureau is fairly complex. At present, responsibilities are shared between Integrated Services and the Operations Sector.

The Bureau's Director of Finance, who is responsible for financial accounting (e.g. management and budgetary control, accounts payable, accounts receivable, financial controls, production of in-house financial statements), and who comes under the PWGSC Finance Branch, reports functionally to the Director General, Integrated Services. The information required to prepare the Bureau's in-house financial statements comes from several sources: the CDFS for salary and operating expenses and the AMS for revenues. To handle these various responsibilities, the Bureau's Finance Directorate has approximately 12 FTEs.

Integrated Services is responsible for preparing a universal formula for calculating the cost per word translated in-house and externally and the keys for allocating overhead.

The Operations Sector's Business Development Directorate is in charge of producing the management dashboards, which are comparable to reports produced in accordance with cost accounting principles. This source of information is used the most by the Operations Sector directors and is essential to smooth-running operations.

3.12 Need to Improve the Management Cost Accounting Function

With no yardstick, there can be no measurement.

With no measurement, control is lost.

American Society for Public Administration (1996)

Performance Measurement: A Work in Progress

The purpose of cost accounting is to provide information for making decisions and monitoring expenditures. Cost accounting must be regarded as complementing financial accounting rather than replacing it. Operations can be monitored more closely with cost accounting because it identifies the costs incurred in carrying out an activity.

3.9 Formula for Calculating the Cost of Translation Activities

In the preliminary survey report, we noted that the Bureau had not yet determined a formula for calculating the cost per word translated in-house and externally and that the allocation of overhead was still a problem.

During the detailed examination phase, however, the Director General, Integrated Services, presented us with a model that had been endorsed by the various sectors of the Bureau.

We also noted that the Bureau is moving farther and farther away from billing by the word. The intention is to change over to hourly billing as quickly as possible.

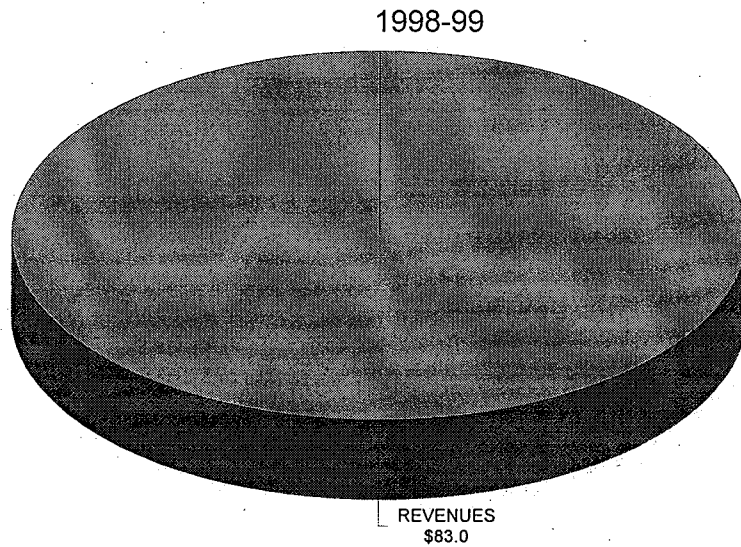
Recommendation

- 3. The Bureau should develop a formula for calculating the cost of each activity entailed in the translation of a text, both in-house and externally, using data from sources such as the Activity Management System (AMS). The overhead associated with such activities should also be taken into consideration. This should make it possible to identify areas where further savings can be made.*

3.10 Method of Allocating Overhead

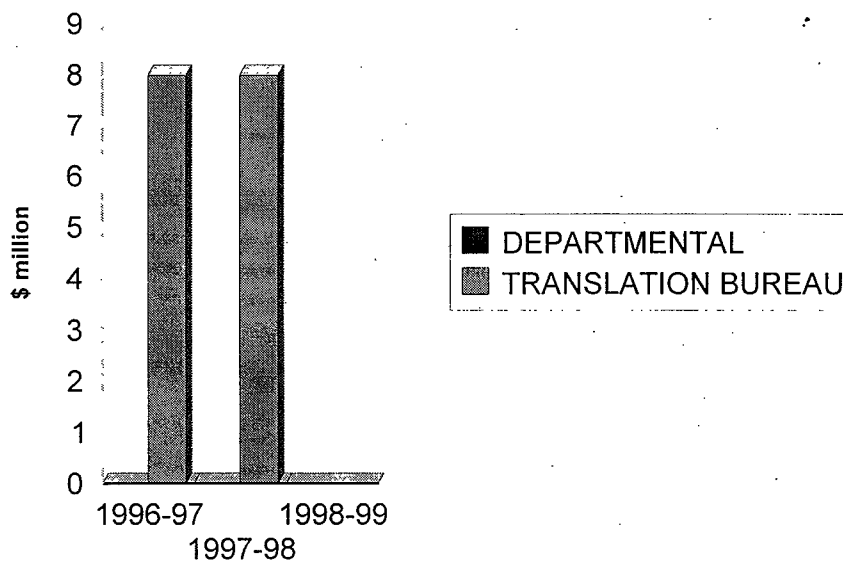
We also pointed out in the preliminary survey report that the method used to allocate the Bureau's overhead, which was based on the number of TRs working in a unit, should be reviewed because it significantly penalized units that did little contracting-out. We suggested that the Bureau consider allocating overhead using a method based on the dollar value of sales budgeted for each unit instead. It should be mentioned that there is no really perfect method for allocating overhead.

COMPARISON OF OVERHEAD AND REVENUES



During the detailed examination phase, Integrated Services developed a method based on the number of in-house TRs and the equivalent number of freelance TRs. This method is similar to what we were proposing. Using this key for allocating overhead, some responsibility centres have seen their contribution margin change from positive to negative.

CHANGE IN OVERHEAD



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We also noted that some units boasted about making a profit even though the Bureau was registering a loss of about \$9 million. It is thus important for the Bureau to allocate overhead to each of the units so that they do not lose sight of the expenses and they realize that the battle is not yet won.

In 1998-99, each dollar earned by the Bureau entailed _____ in corporate services and head office overhead. For 1997-98, the ratio was _____ cents in overhead for each dollar in revenue. Therefore, in 1998-99, the Bureau managed to reduce overhead by \$1.1 million from the 1997-98 level.

3.11 Organization of the Finance Function

The organization of the finance function at the Bureau is fairly complex. At present, responsibilities are shared between Integrated Services and the Operations Sector.

The Bureau's Director of Finance, who is responsible for financial accounting (e.g. management and budgetary control, accounts payable, accounts receivable, financial controls, production of in-house financial statements), and who comes under the PWGSC Finance Branch, reports functionally to the Director General, Integrated Services. The information required to prepare the Bureau's in-house financial statements comes from several sources: the CDFS for salary and operating expenses and the AMS for revenues. To handle these various responsibilities, the Bureau's Finance Directorate has approximately 12 FTEs.

Integrated Services is responsible for preparing a universal formula for calculating the cost per word translated in-house and externally and the keys for allocating overhead.

The Operations Sector's Business Development Directorate is in charge of producing the management dashboards, which are comparable to reports produced in accordance with cost accounting principles. This source of information is used the most by the Operations Sector directors and is essential to smooth-running operations.

3.12 Need to Improve the Management Cost Accounting Function

With no yardstick, there can be no measurement.

With no measurement, control is lost.

American Society for Public Administration (1996)

Performance Measurement: A Work in Progress

The purpose of cost accounting is to provide information for making decisions and monitoring expenditures. Cost accounting must be regarded as complementing financial accounting rather than replacing it. Operations can be monitored more closely with cost accounting because it identifies the costs incurred in carrying out an activity.

The Bureau is reaping the benefits of the various measures implemented to increase cost-effectiveness. According to information provided by the Bureau, translator productivity is up approximately 15% from 1997-98.

3.7 Direct Costs of In-House Translation

The objective for translators now is to generate _____ times their salary, and a considerable number have already reached this threshold. Generating _____ times their salary means that translators will be able to produce an average of _____ words per year or _____ in revenues (_____ words x _____ cents per word translated). Therefore, with a translator's annual average salary being \$52,500, the direct cost per word translated in-house is _____ including a factor of 25.5% for overhead costs. The Bureau's objective is _____. The Bureau could therefore introduce the concept of "standard in-house costs" and analyse any variance between such standard costs and actual costs.

The analysis of management dashboards produced by the Business Development Directorate reveals that the productivity of TRs who translate for the 11-month period ending February 28, 1999 amounted to _____ down from _____ at the end of the previous year. The total TR payroll went up, on the one hand, because of the salary increase under the new collective agreement and, on the other hand, because some 100 new TRs who need to be trained were hired, which has an impact on productivity.

3.8 Direct Costs of Contracting-Out

Similarly, the Bureau could establish a "standard cost per word translated externally" by determining the average price per word paid to free lances. Currently, the objective for the cost per word translated externally is _____ cents. Therefore, the responsibility centres could use this amount as a "standard cost" and any unfavourable variance could be analysed and adjustments made.

Our analysis of the management dashboards for the period ending December 31, 1998 reveals that the average direct cost per word translated externally was about _____ compared with the objective of _____. This unfavourable variance can be partly explained by the law of supply and demand, as the latter far exceeds the former, driving up market prices.

In 1998-99, close to 40% of the Translation Bureau's revenues were generated by external production. The contracting-out rate was back up to the level recorded before the Bureau became an SOA. In fact, the substantial increase in translation demand was almost entirely absorbed by free lances. Contracting-out expenditures should amount to roughly \$22 million for 1998-99.

The introduction of the concept of standard costs for both in-house and freelance production is of interest to the Bureau for the following reasons:

- 1- work in progress can be assessed quickly at various stages of production;
- 2- actual costs and standard costs can be compared;
- 3- decisions can be made and effectiveness improved when variances are analysed in such a way that the variance and the responsibility for it can be matched.

A variance may be defined as the difference between actual performance and expected performance. For example, it might be worthwhile for Operations Sector managers to know about variances between actual and estimated productivity, between the average standard cost and the rate paid to free lances, between the actual % of billable activities and the estimated %, between the actual overhead rate and the rate factored in, etc. Such information should be available when the dashboards are released.

The information provides the raw material for decision making. Cost accounting provides management information which makes it possible in particular to quantify the various solutions or options available to Bureau management, for example:

- 1- identification of standard production costs, i.e. the breakdown of the cost per word translated in-house and externally;
- 2- identification of keys for allocating overhead to be absorbed by the various components of the Bureau;
- 3- comparison between actual costs and operational targets (standard costs);
- 4- analysis of and reasons for variances and decision making re adjustments;
- 5- identification of the optimal level of contracting-out;
- 6- identification of products to be developed and, conversely, those to be discontinued;
- 7- provision of essential data to support certain Bureau initiatives (e.g. partnership program) or the decision to develop new markets.

However, information for the numerous and varied decisions that Operations Sector managers need to make is still not available from the management dashboards produced by the Business Development Directorate. As a result, decision making often necessitates special studies based in part on the costs determined by the cost accounting or Activity Management System (AMS) reports, or on other types of financial reports.

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At the present time, the Professional Services Directors (PSDs) manage veritable enterprises with 200 to 300 employees generating sales of \$20 to 30 million and yet they do not have the services of a cost accounting analyst to carry out profitability and costing studies or conduct financial simulations to determine the impact of decisions that they are about to make. To make their decisions, the PSDs rely on the dashboards and often on their instincts because of their vast knowledge of Bureau business.

3.13 Improvement in the Quality of Information for Decision Making

Despite the fact that the content of the most recent dashboards had improved considerably, users told us that the charts are often produced several weeks after the end of a given period and are incomplete, and that the revenues posted do not take work in progress into account.

Furthermore, the use of data from the AMS for management purposes is not common among the PSDs or their unit heads because they do not always have the time or the knowledge to design reports adapted to their particular needs.

In our opinion, the AMS is brimming with valuable data, and it would be to the Bureau's advantage to use these data in conjunction with the information already available in the management dashboards. For example, the AMS has all sorts of data on billable and non-billable activities carried out by translators, downtime and hours spent on administration of contracting-out. These data could be analysed to establish the real cost of both in-house and external translation activities. Savings might be achieved, for example, if steps were taken to increase translators' billable time.

Recommendations

In conjunction with its PWGSC partners, the Translation Bureau should make the efforts considered necessary to:

4. *improve the quality of the costing information available for management purposes. It would be to the Bureau's advantage to use the data from the AMS in conjunction with the information already available in the management dashboards.*
5. *ensure the PSDs have resources at their disposal to conduct strategic analyses of the information contained in the different information systems. Consideration should be given to the possibility of having such resources seconded from the Bureau's Finance Directorate.*
6. *ensure that Operations Sector managers receive training in cost accounting.*

3.14 Management of Accounts Receivable

Analysis of the Bureau's internal financial statements for the period ending October 31, 1998 revealed that the accounts receivable balance totalled approximately \$25 million, which is fairly high in comparison with the Bureau's annual volume of business of about \$83.5M. We did not pursue the matter in order to determine the breakdown by client, area of responsibility or age of the account.

The point that we really want to make is that the Bureau managers are not concerned about this crucial issue. The collection of accounts receivable should be a major concern of each Bureau manager considering the finance charges (currently the Bureau is exempt from such expenses) and the possibility that some accounts may never be collected, which could have a negative effect on the Bureau's cost-effectiveness. The older the account, the more difficult it is to collect from the client.

Recommendation

7. *The Bureau should give more attention to managing and collecting outstanding accounts. This should be a major concern of the Bureau's managers.*

3.15 Profit Centre and Transfer Price

At the present time, all the responsibility centres in the Operations Sector are considered to be profit centres. This policy assumes that each service point absorbs a fair share of the overhead.

For some centres of expertise such as those located in Montreal and Quebec City, which do not have any specific client departments to serve, there is no financial incentive for their colleagues who do business directly with client departments to export specialized translation requests or, in some instances, their overflow. Since the performance of profit centres is measured primarily in terms of profit generated, it would be more cost-effective, in that particular case, for them to export their excess demand to free lances in the private sector, as the gross profit margin derived from such an activity would help absorb their overhead expenses.

Recommendation

8. *The Bureau should consider introducing transfer prices, which might eliminate the downtime in some units without affecting the contribution margin of the responsibility centres that transfer their overflow within Operations.*

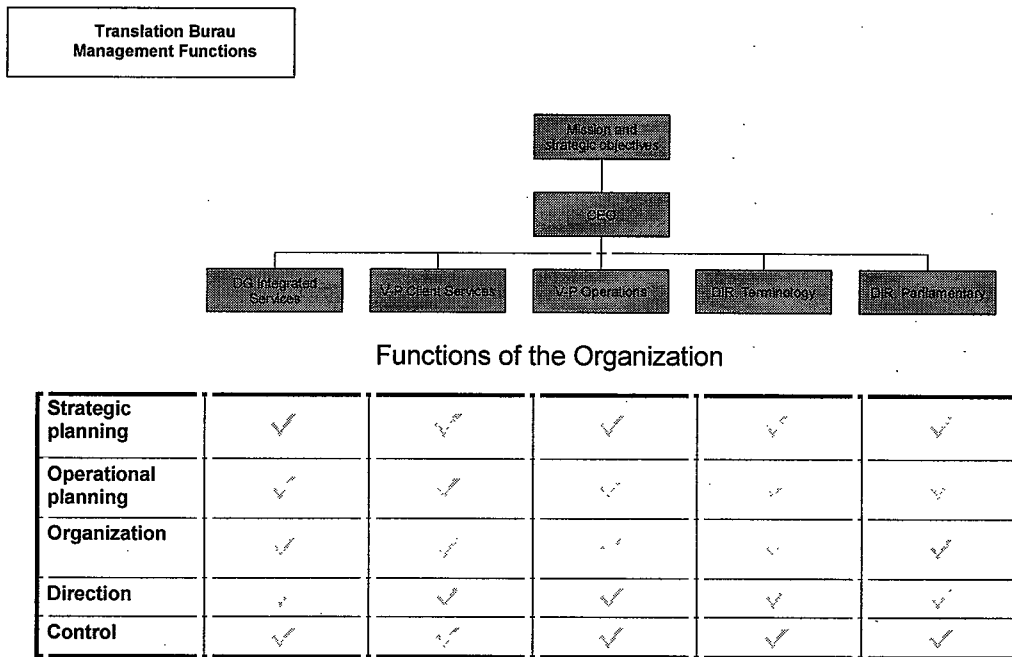
3.16 Secondment of Translators

Operations Sector managers should *decide on the accounting convention for recording revenues generated by translation professionals who are seconded to service centres in the regions but whose substantive position is elsewhere in the Operations Sector.* In such instances, the auditor recommends that the region be credited with the revenues generated by the seconded employee if it is required to assume accommodation, operating, support, contracting-out and other such costs.

3.17 Strategic Planning

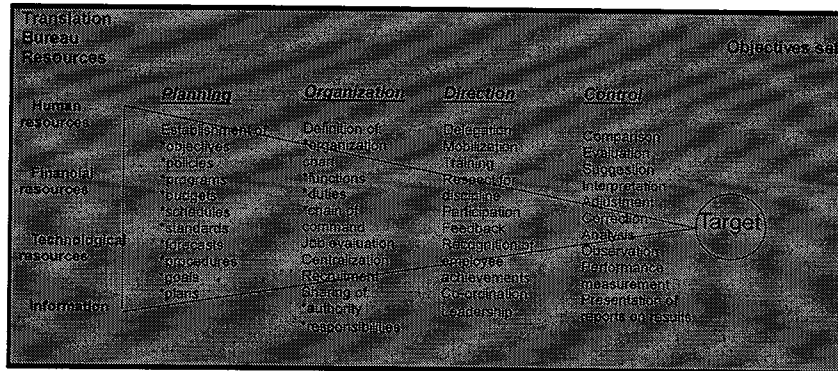
Strategic planning is that part of the planning cycle which entails establishing the organization's future directions and activities. It occurs after the organization has made a thorough study of its clients' needs/services, its own and its competitors' products, the technology required, and the financial and human resources it has at its disposal to ensure that its distinctive skills, which set it apart from others in its market segment, are put to use. This management discipline reveals risks, opportunities and threats and identifies the best choices that the organization can make in order to survive.

During our extensive consultations with all the Bureau managers, we were in a position to survey the Translation Bureau's management functions. The table below lists those management functions in relation to the Bureau's organizational structure.



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All of the managers consulted were well informed about the management activities taking place in the Bureau in the areas of planning, organization, direction and control. The activities making up the various management functions are set out in chart form below.



We found that some managers are concerned about the lack of a central group that is substantially responsible for strategic planning. In their opinion, there is no office of primary responsibility to handle this area of expertise. During our work, we noted that each sector of the Bureau does carry out some form of strategic planning. Each sector monitors key areas of translation. To illustrate this point, strategic reflection had concrete results such as the establishment of the University Partnership Program and the international translation component.

When we raised the subject with the CEO, she confirmed that strategic planning was a management function shared among all the sectors in the organization. Each V-P or DG is responsible for submitting a file on specific strategic issues to the Director General, Integrated Services, so that he can co-ordinate and make appropriate representations to the Bureau's Management Committee. Once that management committee has approved a strategic initiative, it is up to the DG, Integrated Services, to co-ordinate the presentation to the PWGSC Business Committee. In short, it is the Director General, Integrated Services, who is responsible for co-ordinating the strategic planning function for the Bureau as a whole. However, several managers consulted during the project were unaware that the DG, Integrated Services, had this role.

Recommendation

9. *The CEO should formalize the duties that have fallen to the DG, Integrated Services, with respect to co-ordination of the Bureau's strategic planning and inform all managers.*

3.18 International Translation

An initiative is disobedience that has had excellent results.

Hervé Sériyex

On their own, these initiatives are the outcome of strategic reflection carried out in recent years by Bureau senior managers, who identified these business opportunities to ensure the survival of the organization. When it became an SOA, the Bureau conducted an analysis of translation demand using a 5-year time horizon. It was thought at the time that the Bureau's share of the government market would decline and that diversification into the international market might be one avenue to consider, particularly in view of market globalization and the possibility that foreign firms might make inroads into the Canadian translation market.

The Bureau developed a fairly cautious scenario for penetrating the international market by attempting to provide services for bodies such as the _____ and the _____. The scenario also envisaged that such penetration might be costly at the outset but that the situation might even out in time. This is what most businesses find when they attempt to penetrate foreign markets. In order to choose the best game plan, the Bureau, along with Industry Canada and Human Resources Development Canada (to name just two other members), joined a sectoral committee to survey the Canadian translation industry and define a human resources development and export strategy.

For example, when Bombardier took the strategic step of exploring the aeronautics market, the recreational products sector subsidized its ambitious venture. For nearly ten years, the aeronautics sector posted nothing but losses. Today, we see that the aeronautics sector is far more profitable than the recreational products sector. We can draw the same parallel with the Translation Bureau. These days, the organizations that are successful in business are those that invest substantial resources in researching and developing new markets, as it is a matter of survival.

It could be argued that Canadian taxpayers are footing the bill for part of the process of expanding translation operations on the international market, but it should be pointed out that private sector firms receive government support to break into foreign markets through contribution programs that promote exports, such as Team Canada, Technology Partnerships Canada, Industry Canada's Program for Export Market Development and Canada Economic Development's IDEA-SME, and through generous tax credits for research and development.

Since the Bureau plays a leadership role in the Canadian translation market, it cannot expect such incentives and has to rely only on its own means. The Bureau cannot establish partnerships with the private sector, where the focus is more on the immediate future and short-term profitability. It must be said that the Bureau is using all possible means to make its international operations cost-effective and is already ahead of schedule.

The Bureau is faced with several issues including financial self-sufficiency and the pursuit of an activity that is not necessarily part of its mandate. Moreover, current translation demand handled

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by the Bureau exceeds the level of activity at the time the services provided by the Bureau were mandatory.

In our opinion, while awaiting the findings of the sectoral committee on the translation industry in Canada to which the Bureau, Industry Canada and Human Resources Development Canada belong, the Bureau should continue its efforts to position itself on the international translation market. Refusing to explore international translation may mean that Canada will miss out on positioning itself on the world translation market and risks seeing the translation market slip through its fingers, even here in Canada, because foreign firms could encroach on our own Canadian market. Already, this trend is becoming evident. For example, a firm from _____ is translating _____ software into French. A firm in the NCR _____ is awarding its translation contracts to foreign firms. One final point is that it won't be the private translation firms that take responsibility for developing and penetrating the international translation markets. It is therefore up to the Canadian government to take on this area of activity in order to develop and maintain markets that create jobs for Canadians.

Recommendation

10. *Based on an analysis of the Bureau's external environment, we feel it is important that the Bureau continue to play a key role in expanding its operations in the international arena in order to prevent foreign firms from making inroads into the Canadian translation market. This could eventually result in the creation or maintenance of quality jobs for Canadians. The findings of the sectoral committee to which the Bureau belongs will also help validate this conclusion.*

3.19 University Partnership Program

After conducting a demographic analysis of the translator population, the Bureau concluded that it was crucial to establish a training program for student translators. The average age of translators is 46.2, and close to 150 translators are eligible for retirement without penalty between now and 2002-03.

Consequently, the Bureau introduced a training program for student translators in conjunction with five Canadian universities in order to meet a strategic objective in the Bureau's accountability framework. Close to 60 students accepted into the Bureau's program have received rigorous professional coaching and support from experienced translators. Before implementing this program, the Bureau conducted extensive studies of its demographics and probed the national pool of translators in order to determine whether there were sufficient numbers to fill future vacancies.

At the start of the program, the CEO sought financial support from Treasury Board in order to obtain conditions similar to those applying to the FORD/IARD program for its University Partnership Program. It should be noted that the former program is intended for financial

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management and accounting graduates. All federal departments can benefit from the skills of these trainees, who will be part of the next generation of FIs, ASs and other occupational groups once their practicum is completed. It is natural, then, for Treasury Board to provide incentives for the departments to help them defray the costs of the program. However, the Translation Bureau is not in a strong position when it comes to obtaining financial support from Treasury Board. The Bureau is the only employer of people in the TR category, and the departments will not derive any direct benefit from the expertise in translation. The Bureau should be commended for its courage and determination in pursuing the objectives of the training program because it alone has to assume the costs. The task is doubly difficult because the Bureau, as an SOA, has to work toward becoming financially self-sufficient.

Refusing to implement the training program would, in the medium term, compromise succession for TR employees and the very future of the Bureau. Close to 30 years ago, the Translation Bureau, then in a period of strong growth, had to recruit some 400 translators, many of whom came from European countries, to meet the translation demand.

Currently, the average age of translators in the Bureau is 46.2. Moreover, demand is growing, and the Bureau must consider developing plans to renew its aging work force. The past few years have witnessed an increase in demand averaging 10% to 15% annually. At the present time in Canada, the pool of official-languages translators is just keeping up with the demand. Recent attempts to recruit foreign-language translators were very disappointing.

Some feel that the Bureau should not be taking on the job of training the next generation of translators in Canada all on its own, at the Canadian taxpayers' expense. However, in September 1993, the current government released *Creating Opportunity: The Liberal Plan for Canada*. This plan states: **"In Canada today 400,000 young Canadians cannot get work, yet many thousands of jobs are going unfilled because people with the right training and qualifications cannot be found. A Liberal government will work to end this tragic economic mismatch through a Canadian Apprenticeship Program, in partnership with the provinces, the private sector, and labour."**

In the auditors' opinion, the Bureau's senior managers have grasped this idea, which holds out the promise of jobs for young Canadians, and have acted on it to guarantee the supply of translators and to ensure that the Bureau can meet the demand for translation in Canada and plays an active part in the growth in economic activity, which will benefit both the private sector and all Canadians.

Recommendation

11. *Senior management of the Department should consider providing financial support for the Translation Bureau's initiative to prepare the next generation of translators and promote the creation of jobs for young Canadians.*