



National  
Defence

Défense  
nationale

Chief Review Services Chef - Service d'examen


CRS  CS Ex

## Audit of Departmental Budget Management

December 2012

7050-8-32 (CRS)



Canada 

## Table of Contents

|  |            |
|--|------------|
| <b>Acronyms and Abbreviations .....</b>                                  | <b>i</b>   |
| <b>Results in Brief.....</b>   | <b>iii</b> |
| <b>Introduction .....</b>  | <b>1</b>   |
| Background .....   | 1          |
| Objective .....  | 5          |
| Scope .....  | 6          |
| Methodology.....   | 6          |
| Statement of Conformance .....   | 6          |
| <b>Findings and Recommendations.....</b>                                 | <b>7</b>   |
| Forecasting of Resources – Business Planning .....                       | 7          |
| Monitoring of In-year Budget .....                                       | 10         |
| Communication .....  | 11         |
| Organizational Structure and Processes .....                             | 15         |
| Personnel Responsible for Departmental Budget Management.....            | 18         |
| <b>General Conclusion .....</b>  | <b>21</b>  |
| <b>Annex A—Management Action Plan .....</b>                              | <b>A-1</b> |
| <b>Annex B—Audit Criteria .....</b>                                      | <b>B-1</b> |
| <b>Annex C—Budget Management Cycle (Updated In-Year Reporting) .....</b> | <b>C-1</b> |



## Acronyms and Abbreviations

|             |  |
|-------------|--|
| ADM(Fin CS) | Assistant Deputy Minister (Finance and Corporate Services) |
| ADM(HR-Civ) | Assistant Deputy Minister (Human Resources – Civilian)     |
| ADM(IE)     | Assistant Deputy Minister (Infrastructure and Environment) |
| ADM(Mat)    | Assistant Deputy Minister (Materiel)                       |
| C Prog      | Chief of Programme   |
| CE          | Construction Engineering                                   |
| CF          | Canadian Forces  |
| CFDS        | <i>Canada First</i> Defence Strategy                       |
| CFM         | Centralized Funding Model                                  |
| CFO         | Chief Financial Officer                                    |
| CFPAS       | Canadian Forces Performance Appraisal System               |
| CMP         | Chief of Military Personnel                                |
| CRS         | Chief Review Services                                      |
| D Cost S    | Director Costing Services                                  |
| DB          | Director Budget  |
| Dept.       | Department   |
| DFC         | Defence Finance Committee                                  |
| DGWD        | Director General Workforce Development                     |
| DMC         | Defence Management Committee                               |
| DND         | Department of National Defence                             |
| DRMIS       | Defence Resource Management Information System             |
| FPG         | Functional Planning Guidance                               |
| FY          | Fiscal Year  |
| L0          | Level Zero   |
| L1          | Level One  |
| L2          | Level Two  |
| L3          | Level Three  |
| L4          | Level Four   |
| OPI         | Office of Primary Interest                                 |
| PAA         | Program Alignment Architecture                             |
| PMB         | Project Management Board                                   |
| PWGSC       | Public Works and Government Services Canada                |



|      |                                 |
|------|---------------------------------|
| Q    | Quarter                         |
| RCN  | Royal Canadian Navy             |
| SPG  | Strategic Planning Guidance     |
| Sup. | Supplementary                   |
| SWE  | Salary Wage Envelope            |
| VCDS | Vice Chief of the Defence Staff |



## Results in Brief

The Department of National Defence (DND) is one of the largest organizations in Canada supporting complex, geographically dispersed operations that require trained personnel, materiel management, and infrastructure. The sound stewardship of financial resources is imperative for the Department to maximize the priorities it can deliver annually and over multiple years in an effort to achieve its objectives.

The objective of this audit was to assess whether the Department's governance structure and risk management practices pertaining to budget management provide sufficient oversight to ensure sound stewardship of financial resources.

### Overall Assessment

The governance structure and risk management framework provide sufficient oversight for sound stewardship of financial resources. However, the Department can benefit from improving the areas of organizational and personnel performance measurement in relation to budget management.

## Findings and Recommendations

### Business Planning

While the Department has improved the visibility and streamlined the processes of planning salary resource requirements, the implementation of business plans is not set up to track performance.

It is recommended that the Vice Chief of the Defence Staff (VCDS) organization enhance its centralized business planning methodology to further integrate performance metrics. Thus, it would be able to determine whether priorities identified on business plans are in fact achieved through executed activities during periodic and year-end reviews. Explanations should be required for substantive deviations in cost or activities from original plans.

### Monitoring of In-year Budgets

The Department has increased the accuracy of the demand and allocation of resources by improving the timeliness of the budget management process and strengthening the stewardship function.

### Communication

Although delays were evident in the issuance of guidance and approval letters and the filtering of this information throughout the organization, business planning and in-year financial information was effectively communicated between senior leadership and lower-level organizations.

It is recommended that VCDS encourage the timely communication and issuance of approval letters from higher-level to lower-level organizations. It should also develop other mechanisms to foster more expedient initiation of program spending and business planning at the beginning of each fiscal year.

### **Organizational Structure**

DND has improved some aspects of the budget management framework, such as the reporting structure, the processes, and the alignment of responsibilities and accountabilities of budget management. It has done so by launching the Centralized Funding Model (CFM) within the Assistant Deputy Minister (Infrastructure and Environment) (ADM(IE)) organization and the Three Point Forecasting System within the Assistant Deputy Minister (Materiel) (ADM(Mat)) organization. Additionally, it has bolstered the Chief Financial Officer (CFO) role within the Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)) organization.

VCDS and ADM(Fin CS) should further clarify and communicate to key stakeholders, the distinct accountabilities, tasks, and roles performed by their respective organizations in the business planning and in-year budget management processes under the CFO realignment initiative.

### **Personnel**

The management and stewardship of public resources is impeded without sufficient training and strategic rotations of military personnel in key budget management positions, alignment of personnel with budget growth, or budget management performance incentives for resource managers.

ADM(Fin CS), in consultation with VCDS and the Chief of Military Personnel (CMP) organization, will provide functional direction to ensure that non-logistics military members posted in budget management and business planning positions have appropriate background and experience or receive relevant training to support them in their role.

It is recommended that CMP and the Assistant Deputy Minister (Human Resources – Civilian (ADM(HR-Civ))), in consultation with ADM(Fin CS), create clear and measurable performance metrics for the evaluation of all civilian and military personnel in relation to resource management where it is relevant to do so.

### **General Conclusion**

Overall, the governance structure and risk management practices within the Department that pertain to budget management have been improved to provide better oversight of financial resources. There is a framework in place to ensure accurate forecasting of operational resources required for programmed activities during the budget development process. Furthermore, monitoring is sufficient to detect and communicate in-year budget surpluses and pressures in a timely manner to facilitate effective use of funding. The

audit identified opportunities for improvement in the areas of organizational and personnel performance measurement, communication of roles and responsibilities between VCDS and CFO, and the issuance of official guidance and approval letters.

---

**Note:** Please refer to [Annex A](#)—Management Action Plan for the management response to the Chief Review Services (CRS) recommendations.

---



## Introduction

### Background

The CRS 2011/12 Risk-based Audit Plan identified the need for an audit of departmental budget management. Its purpose would be to assess whether the governance structures, communication mechanisms, and financial systems and tools in place, such as over-programming and contingency funding, are effective in ensuring the sound stewardship of financial resources.

This audit covers the governance and strategic direction, stewardship, risk management, and results and performance elements of the Management Accountability Framework, the federal government's key performance management tool. The sound stewardship of financial resources is imperative for the Department to maximize the priorities it can deliver annually and over multiple years in an effort to achieve its objectives.

DND is one of the largest organizations in Canada in terms of personnel, assets, and annual expenditures. It operates in a complex and constantly changing environment and is responsible for the management of a multifaceted and diverse program. This program includes materiel management, construction and infrastructure, health care, and training and education for Canadian and international operations in support of the Canadian Forces (CF) mission to defend Canada's values, interests, and sovereignty at home and abroad.

The budget management cycle includes the Department's business planning process and the in-year budget management process (see [Annex C](#)). The Department uses a robust business planning process to identify its priorities and activities for the upcoming year and to estimate the resources required to carry out these activities. Strategic planning guidance is disseminated from the corporate level of the organization to lower working levels as budget management is a highly devolved process within DND. The lower-level organizations use this information to plan their activities for the year. All planned activities receive scrutiny and approval at every level within the various chains of command and are amalgamated to form the plans and priorities of the Department. The in-year management process involves detecting variances from budgeted spending, reallocating funding, as necessary, and seeking funding adjustments through Parliament, where appropriate.

For the fiscal year (FY) that ended on 31 March 2012, the Department received a total budget of \$21.79 billion to fund the four pillars of the *Canada First* Defence Strategy (CFDS): military readiness, personnel, infrastructure, and equipment. The majority of the Department's spending is comprised of Vote 1 and Vote 5 appropriations. Vote 1 funding is used to pay for operations and maintenance and includes the costs of using and maintaining equipment and infrastructure, communication, and professional services. Vote 5 funding is expended primarily for the acquisition of capital equipment, information systems, and infrastructure. Table 1 illustrates the breakdown of the funds received by the Department for FY 2011/12.

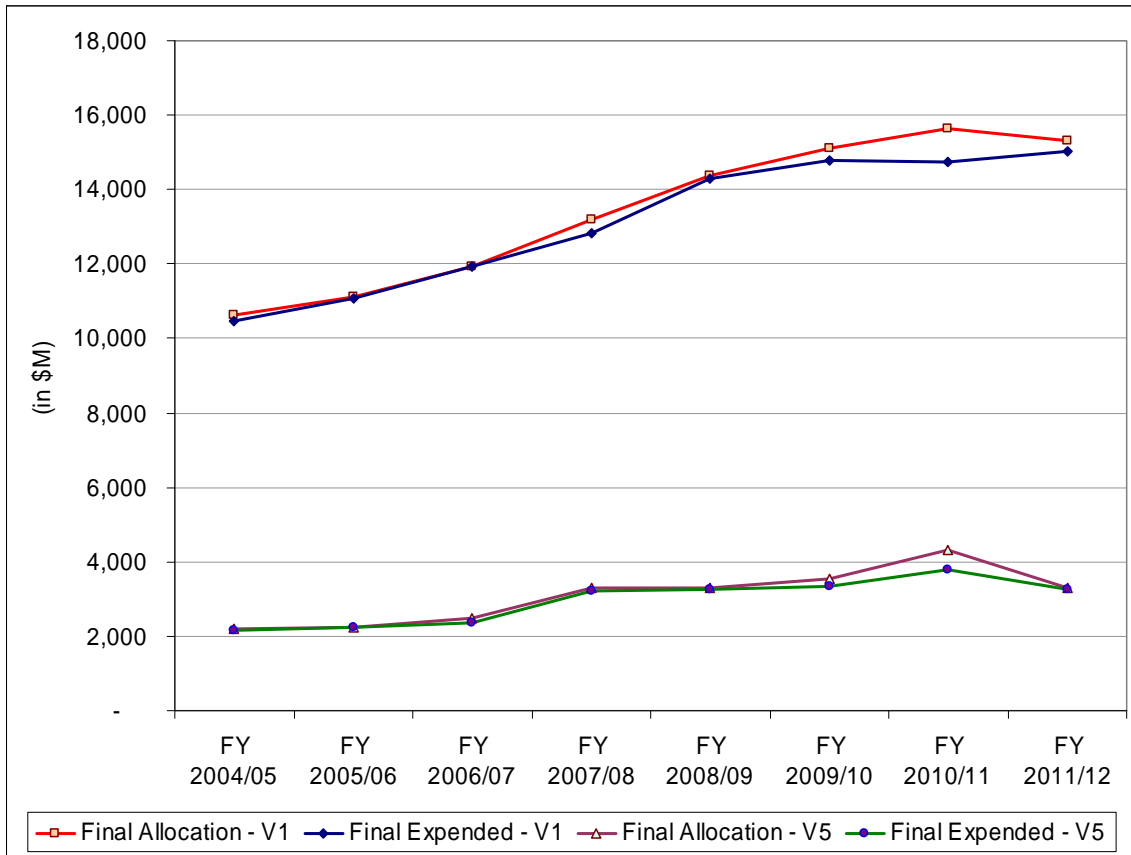


| Funding         | Description                                | Amount          |
|-----------------|--|-----------------|
| Vote 1          | Operating Expenditure                      | \$15.81B        |
| Vote 5          | Capital Expenditure                        | \$4.32B         |
| Vote 10         | Grants and Contribution                    | \$0.24B         |
| Statutory Funds | Various, including Employee Benefits Plans | \$1.42B         |
| <b>Total</b>    |  | <b>\$21.79B</b> |

**Table 1. Summary of DND Funding for Fiscal Year Ended 31 March 2012.** This table provides a breakdown of the funding received by DND for FY 2011/12.

In Budget 2006,<sup>1</sup> the government stated it would increase Defence funding by \$5.3 billion over five years. Subsequently, the government announced the CFDS in 2008. This strategy involves the modernization of the CF through military recruitment, procurement, and a Canadian government strategy to enhance the overall effectiveness of the CF. As a result, the Department experienced significant funding growth from FY 2004/05 to FY 2010/11, which was an aggregate 55 percent increase in Vote 1 and Vote 5 allocations. Figure 1 provides the funding and expenditure levels for Vote 1 and Vote 5, received and expended by the Department from FY 2004/05 to FY 2011/12. With the exception of the fiscal year that ended on 31 March 2011, the Department maintained a high degree of accuracy in its projection of budgeted spending for Vote 1 funding. With respect to Vote 5, the Department increased its capacity to deliver on the acquisition of capital assets; however, not at the same rate that funding was increasing. Timely procurement of complex capital acquisitions are subject to variables outside the control of the Department, such as the contract award process and deviations in major product delivery schedules. Such external variables increase the difficulty of matching Vote 5 expenditures with the supply of Vote 5 funds.

<sup>1</sup> Information based on Budget 2006 published by the Department of Finance.



**Figure 1. Departmental Spending by Vote<sup>2</sup>—FY 2004/05 to 2011/12.** The Department maintained a high degree of accuracy in its projection of budgeted spending for Vote 1 funding. With respect to Vote 5, the Department increased its capacity to deliver on the acquisition of capital assets; however, not at the same rate that funding was increasing. The data is summarized in Table 2 and Table 3.

| FY      | Vote 1     |                        |                      |
|---------|------------|------------------------|----------------------|
|         | % Expended | Final Allocation (\$M) | Final Expended (\$M) |
| 2004/05 | 99%        | 10,609                 | 10,474               |
| 2005/06 | 100%       | 11,098                 | 11,093               |
| 2006/07 | 100%       | 11,943                 | 11,925               |
| 2007/08 | 97%        | 13,214                 | 12,812               |
| 2008/09 | 99%        | 14,358                 | 14,283               |
| 2009/10 | 98%        | 15,127                 | 14,792               |
| 2010/11 | 94%        | 15,640                 | 14,759               |
| 2011/12 | 98%        | 15,326                 | 15,039               |

**Table 2. Departmental Spending for Vote 1—FY 2004/05 to 2011/12.**

<sup>2</sup> Data based on financial information on the use of spending authorities provided by Director Budget (DB) in ADM(Fin CS).

| FY      | Vote 5     |                        |                      |
|---------|------------|------------------------|----------------------|
|         | % Expended | Final Allocation (\$M) | Final Expended (\$M) |
| 2004/05 | 99%        | 2,193                  | 2,174                |
| 2005/06 | 100%       | 2,243                  | 2,237                |
| 2006/07 | 96%        | 2,481                  | 2,381                |
| 2007/08 | 98%        | 3,279                  | 3,199                |
| 2008/09 | 99%        | 3,294                  | 3,270                |
| 2009/10 | 95%        | 3,535                  | 3,343                |
| 2010/11 | 88%        | 4,308                  | 3,807                |
| 2011/12 | 99%        | 3,294                  | 3,255                |

Table 3. Departmental Spending for Vote 5—FY 2004/05 to 2011/12.

Figure 2 shows a five-year weighted average of the variance between annual expenditures and final annual allocations for DND and eight other departments over the last five fiscal years ending in FY 2010/11. The eight departments selected for this comparison possess the larger funding allocations within the Government of Canada, excluding transfer payments.

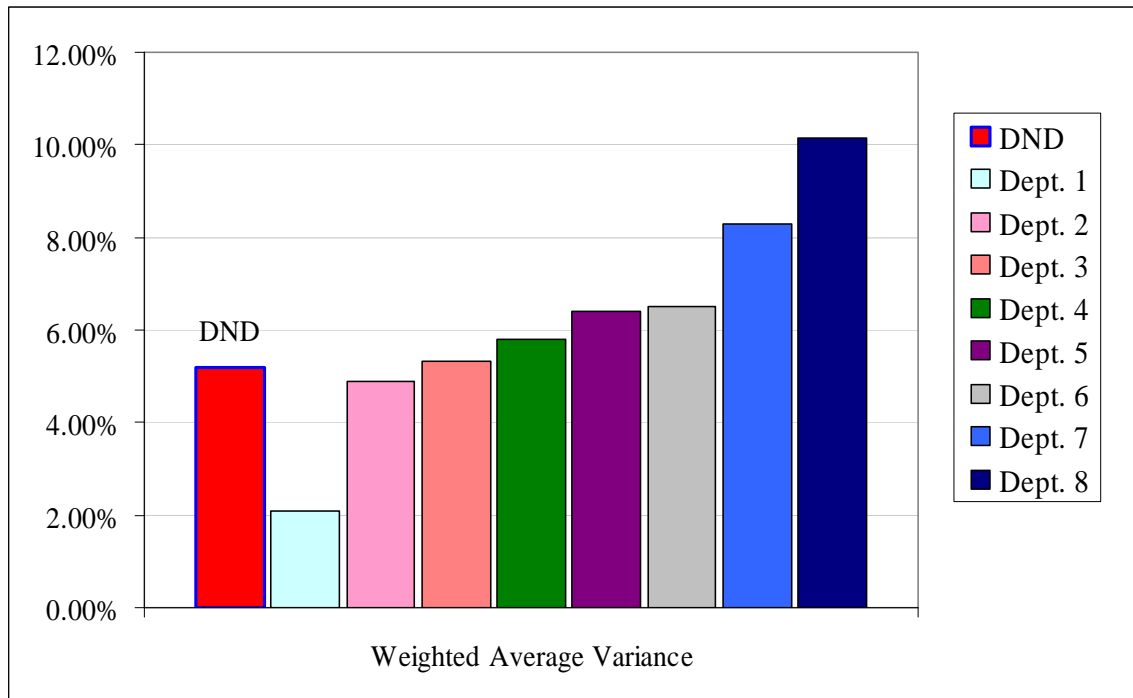


Figure 2. Five-year Weighted Average Expenditure versus Allocation Variance of Select Departments from FY 2006/07 to FY 2010/11. A comparison of nine government departments shows that DND’s variance between annual expenditure and final annual allocation is similar to that of other departments. The data is summarized in Table 4.

| Departments  | Weighted Average Variance |
|--------------|---------------------------|
| Department 1 | 2.08%                     |
| Department 2 | 4.88%                     |
| DND          | 5.19%                     |
| Department 3 | 5.33%                     |
| Department 4 | 5.80%                     |
| Department 5 | 6.42%                     |
| Department 6 | 6.50%                     |
| Department 7 | 8.28%                     |
| Department 8 | 10.13%                    |

**Table 4. Five-year Weighted Average Spending Variance of Departments.**

In 2009, the Office of the Auditor General reported that DND was being held to a higher budget performance management standard in order to meet its more stringent budget carry-forward limits.<sup>3</sup> At that time, DND's carry-forward amount was \$200 million, or less than one percent of its appropriations. Subsequent to that report, a government directive increased DND's carry-forward to a maximum of 2.5 percent.<sup>4</sup> This increase in DND's carry-forward amount is still not consistent with the flexibility afforded other departments, as all remaining government departments are permitted to carry forward up to five percent of their unused annual operating budget to the next fiscal year.<sup>5</sup> Departments lose access to any unused appropriation-based funding in excess of the carry-forward amount. Therefore, it is critical for the Department to have a robust budget management process to ensure that the funding received is consistent with the Department's financial requirements.

## Objective

The objective of the audit is to assess whether the Department's governance structure and risk management practices that pertain to budget management provide sufficient oversight to ensure sound stewardship of financial resources.

For a detailed list of criteria associated with the audit objective and the source of the criteria, please refer to [Annex B](#)—Audit Criteria.

<sup>3</sup> Office of the Auditor General 2009 Spring Report, Chapter 5, Financial Management and Control – National Defence, 5.12.

<sup>4</sup> 2.5 percent applies to Vote 1 and Vote 5 of approved annual main estimates, net of investment cash for accrual projects and special purpose allotments.

<sup>5</sup> Treasury Board of Canada Secretariat, Policy for Ministers' Offices, January 2011, Financial Management, 4.2.2.

## Scope

This department-wide audit focused on the budget planning and preparation process from FY 2008/09 to FY 2012/13 and the in-year budget management process from FY 2007/08 to FY 2011/12. The audit covered a sample of all organization levels<sup>6</sup> within DND. The audit scope included an analysis of the performance metrics for the Department as well as an examination of how individual managers are evaluated on departmental budget management. A review of systemic issues involving the capacity and ability of the Department to execute the Defence program with its allotted resources was also undertaken.

## Methodology

The audit team performed the following activities as part of the audit process:

- reviewed relevant Government of Canada and DND policies, directives, and initiatives related to budget management;
- conducted interviews of approximately 120 DND personnel and reviewed business planning and financial reporting documentation from 12 L1 organizations, as well as a sample of their L2, L3 and L4 organizations; and
- conducted various financial analyses from FY 2006/07 to FY 2011/12 to identify trends in budget allotments and expenditures.

## Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.

---

<sup>6</sup> Level 0 (L0), Level 1 (L1), Level 2 (L2), Level 3 (L3), and Level 4 (L4) are the corporate, assistant deputy minister, director general, director, and manager levels within DND, respectively.



## Findings and Recommendations

### Forecasting of Resources – Business Planning

The overall business planning process does not qualitatively or quantitatively measure or track program performance for future resource requirement analysis. However, the Department has improved the visibility of resource requirements for salaries by automating salary wage envelope (SWE) commitments via the salary forecasting tool.

#### Business Planning Process

While the Department has an established business planning process and provides L1s with templates to assist in their planning process, a common system or prescribed tool does not exist for business planning purposes. Current business planning templates limit the L0's visibility into the lower level business planning activities of L1 organizations.

The L1 business plans are stand-alone documents that do not ensure programmed or planned activities are consistently and independently assessed for completion or progress at year-end. The majority of interviews indicated that the business planning process is a tool to allocate financial resources.

Without consistent and substantial performance measurement against L1-approved business plans, there is an increased risk that the expected outcomes stated in the business plans are not achieved or that activities conducted are not in line with the Department's strategy and/or priorities. Although the Department assesses performance based on the Program Alignment Architecture (PAA), this analysis is at a high level and not adequate for L1 out-year forecasting and planning purposes. Additionally, the L1s manage their financial resources by fund and not by PAA structure. That being said, the PAA structure is currently under revision by the VCDS (with an expected completion date of April 2014 and is expected to be more detailed with greater emphasis at the activity level of the organization, which may lead to improved performance measurement.

The Royal Canadian Navy's (RCN) activity-based output model and web-interfaced business planning tool was identified as a better practice for linking costs to activities throughout the organization while continuing to track expenditures by fund. This tool is easy to use for lower-level business planners and intuitively links the RCN's lowest-level activities to its output model, which is also linked to the Department's PAA. The tool allows a high degree of transparency so that business planning activities can be seen from the L1 through to the lowest levels and also includes fields where business planners can add descriptive text to support their forecasts, include the impacts of unfunded pressures, and rationalize unaccomplished activities. Such capability was not found elsewhere in the Department.

#### Good Practices

The RCN's activity-based output model and web-interfaced business planning tool was identified as a better practice for linking costs to activities throughout the organization while continuing to track expenditures by fund.

In relation to the SWE, the Department has made some improvements to the business planning process through implementation of the Salary Forecasting Tool. This tool provides L1s with a standard and automated method of forecasting SWE and also removes the responsibility of maintaining commitments for SWE in the Department's financial system of record, the Defence Resource Management Information System (DRMIS). Issues identified during the planning phase of the audit, such as the accuracy of forecasting, the in-year commitments, and the reliability of the free balance of SWE in DRMIS were reported to be significantly mitigated during audit debriefs by L1s involved in the staggered implementation of the salary forecasting tool. The departmental roll-out of this tool is targeted for FY 2012/13.

### **Cost Estimation of Business Plans**

Cost estimation of activities is an important exercise at DND for standard Defence program requirements and in consideration of the potential for changes in priorities or additional operational requirements. The costing function is integral to helping stakeholders accurately determine the cost of activities when assessing the financial capability to execute priorities.

Process walkthroughs during the audit identified that the diversity of stakeholder involvement in the costing of activities varied by organization. In some organizations, business planners alone were responsible for costing business plans and providing inputs on baseline and in-year funding estimates and revisions. In other organizations, comptrollers provided historical input during business planning sessions to identify and validate proposed activity costs.

Director Defence Programme Coordination analysts, within the VCDS organization, validate the business plans in co-operation with DB analysts within ADM(Fin CS). The validation and challenge function by Director Defence Programme Coordination analysts is limited to revisions of baseline and in-year cost estimates put forth by L1 organizations in their original business plans. The absence of performance measurements on the historical cost of activities limits the Department's visibility of the actual costs of baseline activities and increases the risk that individual L1s might reallocate resources in a manner that does not fully support the Department's priorities.

### **Costing of Major Capital Projects**

The ongoing efforts to convert many appropriation-based projects into accrual-based projects places the Director Costing Services (D Cost S), within ADM(Fin CS), in a particularly important position to co-ordinate with the DB on the revision of project life-cycle forecasts and related cash outlays.

D Cost S has been responsible for the validation of capital project costs. The organization is now responsible for the actual costing and not just the cost validation of capital projects along with an approved increase in the number of personnel to carry out these costing activities. D Cost S plans to embed costing personnel within capital projects on-site. This is intended to strengthen the Department's forecasting capability for project management. During this audit, there was an overall consensus among stakeholders for the need to strengthen the costing function within DND.

### **Conclusion**

The business planning process does not measure actual performance against the approved L1 business plans. The notion that the execution of approved L1 business plans is not being assessed using performance metrics increases the risk that activities are not appropriately funded and that activities executed are not in line with the Department's strategies and priorities. Funding is obtained based on the submitted plans but the current framework does not hold managers to account for delivery against these plans, using allocations.

### **Recommendation**

1. VCDS should enhance its centralized business planning methodology to further integrate performance metrics in order to determine whether priorities identified on business plans are in fact achieved through executed activities during periodic and year-end reviews. Explanations should be required for substantive deviations in cost or activities from original plans.

**OPI:** VCDS



## Monitoring of In-year Budget

The Department has strengthened the stewardship function and made improvements to the budget management process to increase the accuracy of resource demand and allocation.

The in-year budget management process is the primary mechanism to identify financial variances between plans and realized expenditures. This process ensures budget surpluses and pressures are detected and communicated from L1s to L0s in a timely manner to facilitate effective use of funding.

### In-year Budget Management Process

The Department has made some improvements to the budget management process and timelines to better align the demand and supply of financial resources. Historically, the Department managed the in-year budget through a quarterly reporting process requiring L1s to identify pressure and surplus situations. During the audit, stakeholders indicated that the quarterly reporting process did not provide the Department with adequate and timely information to prepare supplementary estimates and accurately determine incremental in-year financial requirements. Starting in FY 2011/12, the Department has particularly emphasized the need for L1s to identify pressures and surpluses by the Quarter (Q) 2 reporting period. This has resulted in a notable increase in surpluses declared earlier than in previous years. In FY 2012/13, DND implemented a new reporting framework with three periods per year, which is intended to convey a financial status that is more closely aligned with the supplementary estimates process.

Increased coordination between the organizations within DB that are responsible for the financial reporting process and those that are responsible for the preparation of the main and supplementary estimates has improved the accuracy of funding level requests.

### Conclusion

The monitoring framework for identifying financial variances between plans and expenditures has improved with the revised in-year reporting system, increased coordination between organizations within DB, and emphasis on the need for lower levels to identify pressures and surpluses earlier in the fiscal year.

**Communication**

There is effective two-way communication between senior leadership and lower-level organizations in the Department on matters relating to business planning and in-year financial information. However, there were delays in the issuance of guidance and approval letters.

In a department the size of DND, effective and efficient communication of departmental priorities is important for the creation of business plans that reflect input of key stakeholders from the highest to the lowest levels of the Department. Similarly, it is important to provide formal business plan approvals and timely communication of fund allotments and allocations. This ensures that key stakeholders that are responsible for carrying out approved activities in support of departmental priorities can start executing these activities as soon as possible and with the confidence that sufficient funding is available.

**Issuance of Departmental Guidance and Approval Letter**

Strategic-level guidance on business planning and in-year activities must be given in a timely manner. This will ensure that all lower-level organizations have enough time to provide their input to the business planning process, initiate spending, and commit their budgets in a timely manner to reflect the priorities stated in their business plans.

The Strategic Planning Guidance (SPG) provides strategic-level guidance and direction to the L1s in advance of the business planning cycle for the upcoming three fiscal years. Historically, the SPG has also been supported by the Functional Planning Guidance (FPG) issued by the functional authorities. Since FY 2008/09, a new trend has existed whereby the SPG has been issued progressively later in the year, as illustrated in Table 5.

| FY      | Official Date SPG Was Released |
|---------|--------------------------------|
| 2008/09 | July 2007                      |
| 2009/10 | 17 July 2008                   |
| 2010/11 | 7 August 2009                  |
| 2011/12 | 21 September 2010              |
| 2012/13 | 26 August 2011                 |

**Table 5. Issuance Date of SPG from FY 2008/09 to FY 2012/13.** This table notes that the release of the SPG has been delayed by weeks or months since FY 2008/09.

This can be a cause for concern as the SPG and the FPG set the overall tone for departmental priorities. The messages, direction, and guidance communicated through the SPG and FPG are filtered down to the lower levels of each L1 organization. The lower-level business planners, in turn, formally respond to the direction and guidance they receive by reporting planned tasks and activities up the chain of command. In larger L1 organizations, this top-down direction and subsequent bottom-up flow of information is a lengthy process, partly due to their size and partly due to the challenges related to quick and accurate retrieval of certain financial information that is stored outside of DRMIS. As a result, there have been some instances where the budget for the lowest organizational

level fund centre was decided by its higher-level fund centre due to insufficient time in gathering and communicating the information. Starting in FY 2013/14, the SPG will incorporate the FPGs traditionally issued by various L1 organizations. However, it is not known whether this action will improve the timeliness of distributing business planning information for timely forecast in upcoming year resource requirements.

With respect to in-year budget management, it was noted that in some instances that L2s did not receive the business plan approval letter on time. This can affect their ability to initiate spending in a timely fashion, particularly among those L2s that are more risk-averse and reluctant to expend in advance of receiving an official spending authorization letter. However, some L1s encourage their L2s to risk-manage and start spending up to 25 percent of the notional allocations prior to receiving the business plan approval letter. The inclination of an L2 to spend money prior to receiving the approval letter can vary depending on the risk tolerance, the specific L2 comptroller, or the type of business of in which the organization is engaged.

### **Over-planning Messages**

Over-planning is defined by DB as when “L1s have committed, expended, and planned to execute a level of programmed activity for which funding may not be available initially, but through anticipated slippage, reprioritization of internal resources, and execution of internal off-ramps, the plan of that L1 is to balance at year-end within their allocated budget. L1s are authorized over-planning in Vote 1, with the provision that they are to articulate in their returns the plan and measures they have put in place to balance at year-end within their allocated budget.” Over-planning is an important risk-management tool which can be used by organizations within the Department to manage the risk of non-execution of certain projects/activities by having additional projects or activities that align with Defence priorities and can be carried out during the fiscal year.

Various levels of organizations within the Department use over-planning as an approach for in-year management of funds. However, there is a need to further promulgate an appropriate, department-wide understanding of the concept of over-planning. The DB has an internal website that provides definitions of over-planning and over-programming.<sup>7</sup> However, some lower-level organizations indicated they are not aware of the availability of the definition and there is a lack of sufficient understanding of over-planning and over-programming, as well as confusion between the two concepts. Some of the interviewees believed over-planning implied spending beyond the given authority and were not necessarily aware of the requirement to put in place corresponding off-ramps for over-planned activities.

---

<sup>7</sup> When L1s have committed, expended and planned to execute a level of programmed activity for which funding is not available within the resources allocated, and no reprioritization of internal resources nor executable off-ramps are available to provide funding relief within their allocated budget.

L1 organizations are held accountable for their performance based on their management of allotted financial resources. Thus, they are authorized to determine their own level of over-planning. Due to the varied nature of operations and varying levels of risk tolerance, each organization takes a different approach to the level of over-planning that is required and deemed appropriate.

The majority of organizations examined hold some form of contingency fund to mitigate the risk of over-programming by their subordinate organization. However, a sum of contingencies held at various levels in a given organization might add up to a considerable pool of funding that could lead to ineffective usage of resources at year-end. Furthermore, the desired and appropriate level of funds set aside for contingency purposes is not always well communicated up the chain and is left to the discretion of individual managers.

### **Communication within and between Organizations**

The formal organizational relationship between the comptroller and business planner can vary between L1 organizations. No particular reporting relationship seemed to be superior to the other when reviewing the actual performance of organizations. On-going communication between the two functions was identified as a key success factor in ensuring effective future year planning based on in-year experiences. While communication can be personality driven, having the business planner and comptroller within the same organization ensures the continuity of information exchange.

Organizations indicated that there is open communication between L0 and L1 organizations and within the L1 organizations in the areas of business planning and in-year reporting. This contributes to proactively keeping organizations up-to-date on any decision changes regarding out-year and in-year matters in lieu of official direction.

### **Usage of Technologies**

SharePoint is a web application, maintained by VCDS, that provides a platform for document and file management and collaboration between L0 and L1 organizations. The use of SharePoint for sharing business planning documents, such as plans, approvals, and assessments is a positive step by the Department to facilitate the ease of cross-communication between key stakeholders.

### **Co-location of DND and Public Works and Government Services Canada (PWGSC) Staff**

Effective and efficient communication between DND and PWGSC enhances accurate forecasting of both in-year and out-year resource requirements for the acquisition of goods and services. In addition to reciprocal knowledge sharing of their respective areas of expertise, co-location of PWGSC and DND procurement personnel was indicated to be a key factor in helping ensure up-to-date information on the status of DND procurement files, particularly in the absence of a standard service-level agreement with PWGSC.

## Conclusion

Delays in the issuance of guidance and approval letters caused certain lower-level organizations to postpone carrying out activities or formulating expenditure plans since they considered the letters as their authorization to proceed with their plans. This reduced organizational confidence that sufficient funding would be made available for their requirements, resulting in a postponement of executing their respective programs. This, in turn, increased the risk of non-execution of projects and activities, as well as permanent loss of financial resources.

## Recommendation

2. VCDS should encourage the timely communication and issuance of approval letters from higher-level to lower-level organizations and develop other mechanisms to foster more expedient initiation of program spending and business planning at the beginning of each fiscal year.

**OPI:** VCDS



## Organizational Structure and Processes

The Department has implemented the Centralized Funding Model at ADM(IE) and the Three Point Forecasting System at ADM(Mat). It has established the CFO model as enhancements to its reporting structures and processes and has reshuffled budget management responsibilities to better align with accountabilities. These changes have improved internal coherence, alignment to outcomes, and stewardship of resources in the Department.

A well-structured organization with a defined process that supports the effectiveness and accuracy of the forecasting of future-year resource requirements, the in-year monitoring of the budget, and the reallocation of resources between organizations within the Department is integral to effective budget management.

Since the start of FY 2011/12, the Department has reorganized and made several changes to its structure in an effort to improve stewardship of financial resources and accountability of the stakeholders involved in the budget management process. It also aimed to ensure that budget surpluses and pressures would be communicated in a timely manner to facilitate the effective use of funding. The initiatives implemented include a CFM for construction engineering (CE) funds, a Three-Point Forecasting System for procurement, and the re-alignment of the business planning function as a result of the establishment of the CFO model.

### Centralized Funding Model

Historically, CE funds were allocated to various L1s to further the infrastructure program while ADM(IE) remained functionally accountable for the utilization or under-utilization of these funds.

Beginning in FY 2012/13, with the endorsement of the Programme Management Board and the Defence Finance Committee (DFC), a CFM initiative was implemented to improve the linkage between stewardship of financial resources and accountability for the usage of CE funds. The purpose of this initiative has been to provide ADM(IE) with greater control over the prioritization and allocation of future-year infrastructure and environment projects/funding and in-year management, including over-planning, of approximately \$420 million in appropriation-based CE funds.

This initiative prevents utilization of funds intended for CE activities to mitigate other operational pressures faced by individual L1s. It also indicates that the Department is taking steps to align authorities with accountabilities wherever possible.

### Three Point Forecasting System

The Three Point Forecasting System is one of the additions currently being used in ADM(Mat) to improve fund forecasting for corporate accounts only (national procurement and capital projects). This is done by placing greater emphasis on risk management and scenario planning for future-year project cost estimates and in-year management of resources requirements. There are three levels of estimates involved in the forecasting process, including a “high estimate,” a “most likely estimate,” and a “low estimate” of executed activities. A challenge and validation process involving the input and collaboration of L2 organizations is used to arrive at the three estimates. The effectiveness of this system on ADM(Mat)’s financial management performance has yet to be determined.

### Establishment of the CFO Model

The CFO role, held by the ADM(Fin CS), was established “to provide the Department with a robust challenge function on financial management and resource matters”<sup>8</sup> in addition to other CFO responsibilities per the Treasury Board Policy on Financial Management Governance (last amended 1 June 2010). As a result, during FY 2011/12, the financial resource allocation part of the business planning function was transferred to ADM(Fin CS) as it would have “responsibility for financial resource allocation, costing, in-year financial management and maintenance, and reporting on the Investment Plan and for Treasury Board submissions.”<sup>9</sup>

This re-alignment was intended to ensure that responsibilities align with functional authorities and to provide clear lines of accountability to streamline the financial management and business planning processes. Part of the initiative involved clarifying the roles and responsibilities of the VCDS and CFO with respect to budget management and communicating the same to key stakeholders. The CFO is accountable to the Deputy Minister for financial resource allocation, financial risk, and investment plan affordability. The VCDS is responsible for integrating capability requirements within available resources.

However, this initiative could have been better executed. Interviews with key stakeholders within the Department have indicated that the role distinctions between the CFO and VCDS have not yet been well communicated or explained. Stakeholders are unclear as to the respective roles of the two organizations in regards to both the business planning and the in-year budget management processes. Furthermore, L1 organizations expressed that they are not aware of which organization acts as the lead communicator when dealing with specific queries or issues relating to budget management. For example, there have been circumstances where they were directed from one organization to the other in the quest for obtaining information or answers to queries.

---

<sup>8</sup> Internal communication. Joint message from the Deputy Minister and the Chief of the Defence Staff, dated 28 June 2011.

<sup>9</sup> Ibid.

## Conclusion

A number of improvements have been made to the departmental financial management framework in recent years, including the bolstering of the CFO function within ADM(Fin CS), which has been undertaken to better align the responsibilities of ADM(Fin CS) with accountabilities identified under the Treasury Board policy.<sup>10</sup> This has led to an organizational need for greater clarification regarding the detailed responsibilities of ADM(Fin CS) in the areas of financial resource allocation and the Investment Plan as well as VCDS's responsibilities in the area of business planning. This clarification will assist organizations in responding to requests from these respective organizations. At this time, the distinction in roles between the CFO and VCDS has not been well communicated or explained, resulting in stakeholder confusion over reporting requirements.

## Recommendation

3. VCDS and ADM(Fin CS) should further clarify and communicate to key stakeholders, the distinct accountabilities, tasks, and roles performed by their respective organizations in regards to the business planning and in-year budget management processes under the CFO re-alignment initiative.

**OPI:** VCDS and ADM(Fin CS)

---

<sup>10</sup> Treasury Board Secretariat, Policy Framework for Financial Management, June 2010.





## Personnel Responsible for Departmental Budget Management

Insufficient training and strategic rotations of military personnel in key budget management positions, combined with personnel growth that is not commensurate with budgetary growth, and the absence of budget management performance incentives for all resource managers impede the management and stewardship of public resources.

From the planning stage where activities and budgets are identified to the reallocation of resources as a result of in-year variances, personnel are an integral part of the framework that governs the departmental budget management process to ensure the Department meets its mandate through proper resource allocation.

### Training and Experience

At all levels, the business planners, responsible for determining the activities, and the comptrollers, responsible for the management of in-year budgets, are well educated and have adequate experience in the Department. Many of the personnel interviewed during this audit have master's degrees, accounting designations, and an experience level that is commensurate with their level of management. The business planners for the environments benefit from having previous experience in military operations.

The Department provides little formal training for business planners or budget managers on the skills required to adequately execute their functions. Although the Department organizes an annual Comptrollership Forum and Business Planning Symposium, these events have limited capacity and are used as a means to disseminate and clarify direction rather than provide training. In addition, budget management is treated as a secondary role of the lowest-level positions that are typically responsible for maintaining commitment and expenditure information in DRMIS. The lower levels cited capacity constraints, inadequate technical expertise, and a lack of understanding of commitment accounting as reasons why DRMIS updates are not timely and accurate.

It was noted that non-logistics military members do not have access to sufficient financial training opportunities with respect to budget development and in-year budget management concepts and methodologies prior to promotion to a position that requires this knowledge. Without sufficient training in business planning, budget management, and commitment accounting, inaccurate free balance information will continue to affect management's ability to adequately allocate resources and, ultimately, the stewardship of the Department's financial resources.

The frequent rotation of military personnel offers diverse perspectives and cumulative breadth of experience. However, the approach has periodically resulted in the majority of personnel in a business planning or budget management function rotating at the same time. In the absence of consistent detailed handovers and documented procedures, corporate knowledge may not be transferred.



## Capacity Challenges

The Department's Vote 1 and Vote 5 funding has increased by approximately 62 percent from \$13 billion in FY 2004/05 to \$21 billion in FY 2010/11 (see Figure 1 and Tables 2 and 3). An analysis of selected core organizations within ADM(Mat) that are responsible for major program management and project delivery identified a slower personnel growth rate of 43 percent. However, funding<sup>11</sup> for programs they are responsible for delivering, including capital equipment and national procurement, increased by 150 percent and 55 percent, respectively, over the same period. To meet this challenge, ADM(Mat) has made significant progress in increasing resources within core classifications<sup>12</sup> that are integral to the program management and project delivery functions. This indicates an appropriate staffing focus. The accelerated rate of growth presents some inherent challenges of adequate training, experience, and requisite knowledge to maximize the effectiveness and efficiency of these resources. The capital equipment and national procurement programs continue to exhibit insufficient personnel capacity due to the accelerated growth in both programs.

ADM(Mat), and the Department as a whole, also relies on third parties in order to deliver capabilities in the procurement process. It was cited during interviews that there are external capacity issues related to Treasury Board approvals, the contracting process with PWGSC, and contractor failure to deliver on project milestones by year-end. All of these issues cause delays in the procurement activities of the Department. The audit team did not substantiate the limitation on external capacity as it falls outside the scope of this audit.

## Performance Metrics

The Canadian Forces Performance Appraisal System (CFPAS) is a tool to develop CF members through constructive feedback, and to accurately assess demonstrated performance and potential for career advancement. This is achieved through the Personnel Evaluation Report and the Personnel Development Review assessments. These assessments include resource-related performance metrics for those members at the rank of lieutenant-colonel or commander and below, but not for those members at the rank of colonel or captain (navy) or higher who would be in strategic management-level positions. For civilian executives, a file review was completed on the Department's civilian executive performance appraisals in which approximately 38 percent had clear and measurable performance metrics related to budget and resource management. With minimal incentives for management to perform in the areas of budget and resource management, there is a greater risk that the Department cannot ensure the sound stewardship of financial resources.

---

<sup>11</sup> Percentages presented are based on the FY 2004/05 Period 14 Monthly Financial Status Report and the FY 2010/11 Final Monthly Financial Status Report published by ADM(Fin CS).

<sup>12</sup> Purchasing and Supply, Engineering and Scientific Support Group, Electronics and Engineering Group.



## Conclusion

Non-logistics military members are not required to take financial training courses at the rank of lieutenant-colonel/commander and below, yet would be expected to apply financial concepts when promoted to a command position or to a business planning function. This has weakened the financial management capacity and increased pressure on the strategic rotations of military personnel in financial roles.

The majority of civilian executive and all military members at the rank of colonel or captain (navy) or higher did not have clear and measurable performance metrics related to budget and resource management for which they are held accountable in their performance appraisals. With minimal incentives for management to meet certain objectives in the areas of budget and resource management, the Department's ability to further enhance its management of financial resources is at risk.

## Recommendations

4. ADM(Fin CS), in consultation with VCDS and CMP, should provide functional direction that non-logistics military members posted in budget management and business planning positions have appropriate background and experience or receive relevant training to support them in their roles.

**OPI:** ADM(Fin CS)

5. CMP and ADM(HR-Civ), in consultation with ADM(Fin CS), should create clear and measurable performance metrics for the evaluation of all civilian and military management personnel in relation to resource management where it is relevant to do so.

**OPI:** CMP and ADM(HR-Civ)

## General Conclusion

The improvements in the budget management framework within the Department provide enhanced oversight over financial resources, taking into consideration the complexity and diversity of the Department's activities as well as stringent standards for the carry-forward of unused funds. There is a framework in place to ensure improved forecasting of the resources required for programmed activities during the budget development process. In addition, there is monitoring that is sufficient to detect and communicate in-year budget surpluses and pressures in a timely manner in order to facilitate effective use of funding. However, the audit has identified opportunities for improvement in the areas of organizational and personnel performance measurement, communication of roles and responsibilities between VCDS and CFO, and timeliness in the issuance of official guidance and approval letters. A focus on these areas will further enhance the use of resources to achieve departmental priorities.



## Annex A—Management Action Plan

CRS uses recommendation significance criteria as follows:

**High**—Controls are not in place or are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

**Moderate**—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

**Low**—Controls are in place but the level of compliance varies.

### Forecasting of Resources – Business Planning

#### CRS Recommendation (High Significance)

1. VCDS should enhance its centralized business planning methodology to further integrate performance metrics in order to determine whether priorities identified on business plans are in fact achieved through executed activities during periodic and year-end reviews. Explanations should be required for substantive deviations in cost or activities from original plans.

#### Management Action

VCDS agrees with this recommendation. The current business planning methodology adjusts marginal funding for activities that differ from those normally found in an L1 baseline budget. Specific direction, in the form of the VCDS Programme Direction letter, is given to most L1s after the initial financial allocations of 31 March each year. This direction now includes specific tasks and, in most cases, deadlines and is coordinated with the Performance Management section of Director Defence Force Planning, which incorporates performance information into the semi-annual performance reports to leadership. This, however, will only provide performance measurement on a small portion of L1s' activities that have changed and have been funded through the current business planning process.

Each L1 has a baseline budget that does not appreciably change year to year, and it is this budget that they manage to conduct their core activities. Currently, there is no visibility at the corporate level on how this budget is aligned with core activities within the L1s. The L1s do not submit a complete list of their activities nor an associated costing of those activities. As a result, aside from the information provided through the current PAA structure, there is no means of assessing deviations in cost or scope for the major activities L1s undertake, even though having this information would lead to better management and prioritization of departmental activities. There is, however, a large initiative under way to redesign the PAA based on lessons learned from the Strategic Review. A directive issued by the VCDS began this work in spring 2012. A new PAA is expected to be submitted to Treasury Board for approval in spring 2013 with an effective date of 1 April 2014. The PAA is being redesigned, based on feedback received during

the Strategic Review, to enhance the granularity and interdependencies between Defence activities and better align resources towards the achievement of results. The Performance Measurement Framework will be updated to address any changes to the structure. Both structures are expected to reach their final form in 2014. This initiative is expected to meet the above CRS recommendation.

**OPI:** VCDS

**Target Date:** Complete redesign of the PAA: April 2013. Update of the Performance Measurement Framework for FY 2014/2015: September 2013. Target for initial budget allocations: 31 March of every fiscal year. Target for VCDS issued programme direction: 1 May of every fiscal year.

---

## Communication

### CRS Recommendation (High Significance)

2. VCDS should encourage the timely communication and issuance of approval letters from higher-level to lower-level organizations and develop other mechanisms to foster more expedient initiation of program spending and business planning at the beginning of each fiscal year.

## Management Action

VCDS agrees with this recommendation. Upon completion of the analysis processes for all L1 business plan submissions, the resulting resource allocation sheets are submitted to the DFC for approval. The funds are then placed in each L1's DRMIS account before midnight on 31 March in order to commence the new fiscal year with funding. In years where the government is operating under warrants, a portion of the full allocation is deposited, but in all cases, enough funds to start the year are available every year at the same time. VCDS/Chief of Programme (C Prog) staff have communicated with DB staff in ADM(Fin CS) to ensure that both the Deputy Minister's initial allocation letter (31 March) and the VCDS's programme direction letter (1 May) encourage every L1 to quickly disseminate the funding they received throughout their subordinate organizations and to commence activities in support of the Defence Services Programme.

**OPI:** VCDS

**Target Date:** To be determined

---

## Organizational Structure and Processes

### CRS Recommendation (Moderate Significance)

3. VCDS and ADM(Fin CS) should further clarify and communicate to key stakeholders, the distinct accountabilities, tasks and roles performed by their respective organizations in regards to the business planning and in-year budget management processes under the CFO re-alignment initiative.

### Management Action

VCDS agrees with this recommendation. VCDS and ADM(Fin CS) staffs at the director general level have agreed on a draft of DAOD 1000-0 that would communicate functional authorities. This draft is currently with the corporate secretary awaiting Deputy Minister approval. Approval date unknown.

In the interim, a letter from VCDS and ADM(Fin CS) will be sent to L1s to clarify these elements: 31 January 2013.

### Management Action ADM(Fin CS)

Building on phases 1 and 2 of the implementation of the CFO model, ADM(Fin CS), in collaboration with VCDS, will finalize the definition and implementation of their respective roles, responsibilities, and accountabilities in DAOD 1000 and other applicable departmental applications. A communications plan to amplify on the information already published will also be developed.

**OPI:** VCDS and ADM(Fin CS)

**VCDS Target Date:** 31 January 2013

**ADM(Fin CS) Target Date:** June 2012

---

## Personnel Responsible for Departmental Budget Management

### CRS Recommendation (Moderate Significance)

4. ADM(Fin CS), in consultation with VCDS and CMP, should provide functional direction that non-logistics military members posted in budget management and business planning positions have appropriate background and experience or receive relevant training to support them in their roles.

### Management Action

ADM(Fin CS), in consultation with VCDS and CMP, will conduct a review of budget management and business planning positions in order to identify the organizational requirement for logistics, logistics finance, and non-logistics personnel. Positions will be reviewed to identify the appropriate background, training, and experience required to successfully perform the duties. Functional direction will be developed based on the

review and provided to career managers and L1s in order to ensure that the qualified personnel are either posted to budget management and business planning positions or the appropriate training is provided as soon as possible.

**OPI:** ADM(Fin CS)/Director General Financial Management/Comptroller Section

**Target Date:** March 2014

#### **CRS Recommendation (Moderate Significance)**

5. CMP and ADM(HR-Civ), in consultation with ADM(Fin CS), should create clear and measurable performance metrics for the evaluation of all civilian and military management personnel in relation to resource management where it is relevant to do so.

#### **Management Action ADM(HR-Civ)**

The Director General Workforce Development (DGWD) will initiate consultations with ADM(Fin CS) concerning appropriate metrics and expectations related to financial management for employees, which will be included in the future performance management programs, processes, and tools.

In particular, by 31 January 2013, the DGWD will undertake the following:

- confirm with ADM(Fin CS) the appropriateness of the existing effective behaviours for financial management and resources described in the Government of Canada Key Leadership Competencies; and
- identify additional measures ADM(Fin CS) wishes to include.

By 31 March 2013, the DGWD will undertake the following:

- ascertain the level of effort required to make amendments to existing performance management programs, processes, and tools;
- review the existing training (online and through the DND Learning and Career Centres) in order to make necessary revisions; and
- develop a communications plan to ensure all managers are aware of the new requirements.

By October 2013, the DGWD will undertake the following:

- begin implementing the communications plan in order to launch new requirements in April 2014; this will coincide with the revamped Civilian Performance and Talent Management process.

Please note that at this time, the inclusion of the metrics in the performance management systems does not assume the ability to report on the effective behaviours from a corporate perspective. ADM(HR-Civ) currently only reports on the completion of the performance evaluation forms by L1 organizations.



**Management Action CMP**

The draft report stated that officers with the rank of colonel/captain (navy) or higher did not have clear and measurable performance metrics related to budget and resource management in their performance appraisals. The CFPAS is currently under review; this observation will be considered as part of that review.

**OPI:** CMP and ADM(HR-Civ)

**Target Date:** Ongoing



## Annex B—Audit Criteria

### Objective

The objective of the audit is to assess whether the Department's governance structure and risk management practices pertaining to budget management provide sufficient oversight to ensure sound stewardship of financial resources.

### Criteria

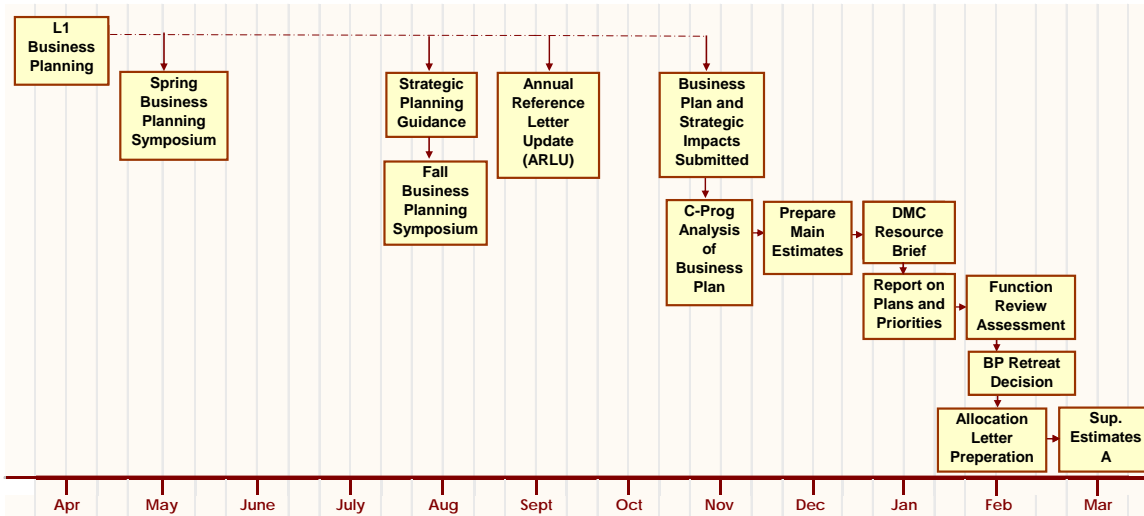
- A framework is in place to ensure accurate forecasting of resources required for programmed activities during the budget development process.
- Monitoring is sufficient to detect budget surpluses and pressures. These are communicated in a timely manner to facilitate effective use of funding.

### Sources

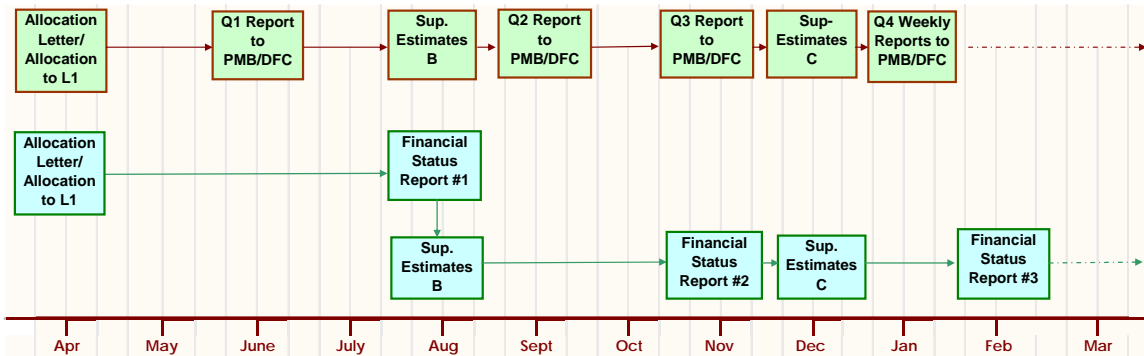
- Audit Criteria related to the Management Accountability Framework: A Tool for Internal Auditors, Treasury Board Secretariat.



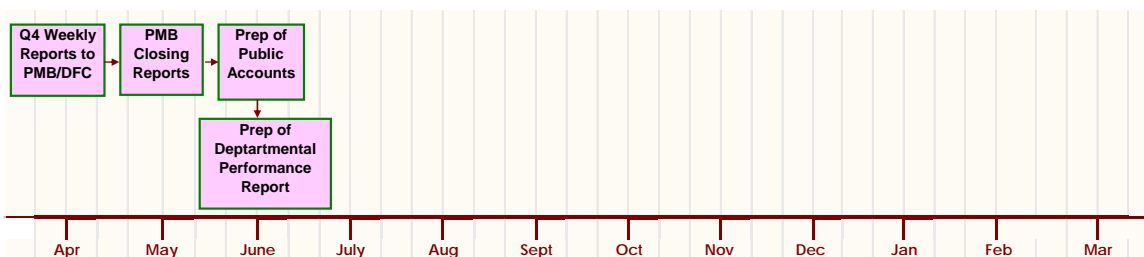
### Annex C—Budget Management Cycle (Updated In-Year Reporting)



**Figure 3. Budget Preparation.** The budget preparation cycle occurs during the fiscal year. Guidance for writing L1 business plans is typically issued in April, final drafts of L1 business plans are submitted in November, and approval letters for L1 business plans are issued in March.



**Figure 4. In-Year Management.** In-year management of the budget is comprised of many individual milestones and deliverables at all levels in the fiscal year. The first process illustrates the process that was used prior to FY 2012/13. The second process illustrates the process that was implemented for FY 2012/2013.



**Figure 5. Budget Reporting (FY+1).** The budget reporting process ultimately results in the preparation of materials for the purpose of external entities reporting.