

**The Royal Canadian Mint**  
**Special Examination Report**  
**presented to the**  
**Board of Directors**  
**on 2 June 2005**





**Office of the Auditor General of Canada**  
**Bureau du vérificateur général du Canada**

25 May 2005

To the Board of Directors of  
the Royal Canadian Mint

We have completed the special examination of the Royal Canadian Mint in accordance with the plan presented to the Audit Committee of the Board of Directors on 19 November 2004. As required by section 139 of the *Financial Administration Act* (FAA), we are pleased to provide to the Board of Directors the final report on the special examination (attached).

I would like to express my appreciation to the Board members, management, and the corporation's staff for their excellent cooperation and assistance during the examination.

Yours sincerely,

(original signed by)

Douglas G. Timmins, CA  
Assistant Auditor General

Attach.



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To: The Board of Directors of the Royal Canadian Mint

## **SPECIAL EXAMINATION OPINION**

1. Under Part X of the *Financial Administration Act* (FAA), the Royal Canadian Mint is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. The FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from September 2004 to March 2005, there were no significant deficiencies in the systems and practices we examined.
4. We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 19 November 2004. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Corporation. The criteria were based on our experience in performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in the appendix to this report.
6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In part of the special examination, we relied on an internal audit of Sales Contract Management.
7. In our opinion, based on the criteria established for the examination there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined.
8. The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations.

(original signed by)

Sheila Fraser, FCA  
Auditor General of Canada  
Ottawa, Canada

31 March 2005

## **OVERVIEW OF THE ROYAL CANADIAN MINT**

The primary functions of the Royal Canadian Mint are to produce and distribute Canadian coins for circulation and for use in trade and commerce, and to ensure an adequate supply of coins in the correct denominations throughout Canada. This requires an effective working relationship with financial institutions, the vending industry, armoured car companies, and other stakeholders.

The Mint also produces circulation coins for other countries under contract, numismatic (collector) coins for both the domestic and international markets, and bullion (precious metal) coins; and it operates a gold refinery.

As a profit-making Crown corporation, the Mint has a mandate to produce a fair return on investment for its sole shareholder, the Canadian government. The Chairman of the Board and the President and Master of the Mint are appointed by order-in-council, whereas the other directors are appointed by the Minister responsible for the Royal Canadian Mint. The President and Master of the Mint is the senior officer of the organization and reports to the Board of Directors.

The Mint operates under the legislative basis of the Royal Canadian Mint Act (the Act). The Act prescribes that the general objective for the Corporation is "to mint coins in anticipation of profit and to carry out other related activities." In order to carry out this mandate, the Mint has the rights, powers, and privileges and the capacity of a natural person.

### **Expected corporate results**

In our view, the Corporation has to achieve the following results in order to fulfill its mandate:

Meet public needs for Canadian circulation coins in a cost-effective and timely manner.

Generate profit to ensure the long-term viability of the Mint and to provide a reasonable return to the shareholder.

Preserve Canadian heritage and values through the production of circulation and numismatic coins.

### **The Mint's business lines**

The Mint owns and operates plants in Winnipeg and in Ottawa; its head office is in Ottawa. There are four lines of business:

manufacturing Canadian circulation coins

manufacturing and marketing foreign circulation and numismatic coins

manufacturing and marketing Canadian numismatic coins and

manufacturing and marketing bullion coins and operating a gold refinery

**Canadian circulation coins.** The Mint's core responsibility under the *Royal Canadian Mint Act* is the cost-effective production of high-quality coins for circulation in Canada. It is also responsible for ensuring that an adequate supply of those coins is distributed across the country.

The Department of Finance pays the Mint to produce, store, and distribute Canadian circulation coins under a cost-plus contract (memorandum of understanding), which was negotiated in 2000 for four years and subsequently extended twice, for one-year terms, until the end of December 2005. In 2004, Finance paid the Mint \$55.4 million, up from \$45.9 million in 2003.

The demand for circulation coins is significantly linked to the state of the Canadian economy; as economic conditions fluctuate, the Mint adjusts its coin shipments to keep inventories at levels that will meet the needs of commercial establishments and the general public. Other factors such as production capacity, the volume of excess coins in the Canadian coin distribution system, and the Mint's own inventory management policies also affect its coin production decisions.

The Mint also markets certain of its circulation coin products or sets of coins as collectors' items—for example, the poppy coin, recently introduced into circulation under a special distribution arrangement with a private sector partner.

**Canadian numismatic products.** This business line has two separate but related segments—collector coins marketed to Canadian and international coin dealers and collectors, and consumer gifts that feature coins and are sold in retail outlets or directly by the Mint. It produces gold, silver, and platinum coins as well as sets of uncirculated, specimen, and proof coins that are issued every year.

Numismatic sales increased slightly in 2004 to \$53.9 million, from \$52.9 million in 2003. Through its numismatic coins, which depict themes reflecting Canada's cultural and natural heritage, the Mint plays a significant role in promoting national pride.

**Foreign coins.** The Mint competes with other mints in designing and minting foreign coins, blanks, and numismatic products and providing consultant services to several foreign countries. Revenues from this business line have declined significantly, from \$50.2 million in 2000 to \$5.7 million in 2003. This decline was due to increased competition and excess capacity in the global minting industry following the introduction of the new Euro currency in January 2002. Foreign coin revenues rebounded to \$24.9 million in 2004, thanks to a concerted effort by the Mint to re-establish itself in this market.

**Bullion and refinery services.** The Mint offers gold refining and bullion storage services and is capable of producing gold products that are up to 99.999 percent pure. It also manufactures the gold and silver coins used in the numismatic business line. Success in this business line depends on the establishment and maintenance of business relationships with mining and precious metals recycling companies and with distributors of bullion products.

The Mint is a London Bullion Market Association (LBMA) producer and operates one of the largest gold refineries in North America. It refines and recasts gold for Canadian and foreign customers, both private and government, offering value-added products and services such as bullion storage, gold granules used in the jewellery industry and industrial applications, gold wafers and bars, as well as assaying and consulting services. The Mint also produces and markets a family of gold and silver maple leaf coins and gold wafers. It has earned the confidence of the international investment community in these products.

Bullion revenues were \$176 million in 2004, up from \$144.3 million in 2003. Refinery revenues doubled from \$3.1 million in 2003 to \$6.3 million in 2004.

### **Subsidiary and joint venture operations**

In 2002, the Mint incorporated RCMH–MRCF Inc. as a wholly owned subsidiary to hold the Mint's 50 percent interest in TGM Specialty Services Inc., a joint venture with a private sector partner. TGM Specialty Services Inc. offers packaging products and specialty services to domestic and international markets for coins, stamps, bills, and related products. In 2004, total sales volume of

TGM Specialty Services Inc. was \$4.1 million, of which \$3.3 million was for services provided to the Mint. We did not include the systems and practices of this subsidiary or the joint venture in this special examination.

### **Business and operating environment**

Following significant losses in 2001, 2002, and 2003, the Mint returned to profitability in 2004 with a net income of \$15.9 million before tax (\$11.1 million after tax). This turnaround took place under new leadership at the Mint, which introduced an expenditure reduction program late in 2003 and numerous other measures to revitalize the Corporation, including the Lean Enterprise initiatives.

The Mint has embarked on an aggressive growth strategy for the planning period 2005 to 2009. The Corporate Plan 2005–2009, approved by the Board on 22 October 2004, forecasts consolidated revenues reaching \$1.1 billion by 2009, compared with \$324 million in 2004. Management has identified the need for its workforce to gain a better appreciation and understanding of its customers in order for business to grow. It is putting in place systems to measure customer satisfaction and respond to feedback.

The Corporation reports that its Lean Enterprise initiatives have made considerable strides in defining business processes and reducing lead times, materials, and costs. It has made a considerable effort to improve communications among the business lines. Managers told us that employee morale is improving as a result of several factors, including the current participative style of management, improved business results, and prospects of future growth.

Operating in an international environment, the Mint is subject to many economic factors such as exchange rates, prices of precious metals, and foreign competition. The Mint's foreign coin business has decreased significantly over the last five years. The adoption of the Euro in 2002 has resulted in a worldwide excess coin production capacity and has compounded the challenges faced by the Mint in rebuilding its foreign coinage business. In 1999, the Mint produced more foreign coins than Canadian coins (1.8 billion and 1.7 billion respectively); in 2003, it produced 1.1 billion Canadian coins and 261 million foreign circulation coins. This downward trend was reversed significantly in 2004, with sales of 677 million foreign circulation coins, spearheaded by a contract with Thailand to produce 1 billion coins over the next year.

The Mint has developed and patented a multi-ply plating process that offers considerable cost advantages because steel can be used instead of more expensive metals such as nickel or copper, traditionally used in the manufacturing of coins. As the prices of nickel and copper reach historic levels, the Mint is expecting to use this technology as a competitive advantage when selling its services to governments in countries where the cost of producing coins now exceeds their face value. The technology also has the advantage of allowing a specific electro-magnetic signature capability for coins, which assists the vending industry.

The Mint's refining business continues to be challenged by the overcapacity of refining services in domestic and international markets.

Although its management is optimistic about the future and has prepared an ambitious five-year plan for growth, several factors could limit the Mint's ability to achieve its growth targets:

The increased use of electronic payments could reduce future demand for coins.

The declining number of coin collectors could affect future sales of numismatic coins.

Demand for bullion generally declines in periods of economic prosperity.

Unexpected economic factors and changes to coinage policy could reduce the need for Canadian circulation coins.

Other mints are competing for foreign coin sales.

## **FINDINGS AND RECOMMENDATIONS**

### **Governance**

Corporate governance refers to the processes, practices, systems, and structures an organization has in place for overseeing its direction and management to achieve its objectives. We expected that the Mint would have a well-performing corporate governance framework, consistent with best practices, to help ensure that it fulfills its mandate appropriately and achieves the expected corporate results, manages its resources economically and efficiently, and safeguards its assets.

### **Board capacity and performance**

We found that the Board of Directors has taken appropriate actions to ensure that it has the resources and skill sets it needs to discharge its responsibilities, that it functions well, and that it is independent. It has developed a profile of the collective skills it needs and has communicated the profile to the Minister responsible for the Mint. The Board has developed a policy manual that sets out the roles and responsibilities of the Board and its members; its Audit Committee, Corporate Governance Committee, and Human Resources Committee; and of the President and CEO, and the General Counsel and Corporate Secretary. It has also developed terms of reference for each of the Board committees, including the recently established Nominating Committee and Strategic Planning Committee.

The Board of Directors has reviewed its performance annually since 2001 and reports the results to the Minister. In 2003, it reported that it lacked necessary and complementary expertise in certain areas, particularly accounting. In June 2003, a new member with financial accounting expertise was appointed to the Board and currently sits as the Chair of the Audit Committee.

### **Board succession planning**

The Board's responsibilities include monitoring succession planning for the Corporation's officers and senior management. The Board met with the President prior to his appointment in 2003. Late in 2004, the Board established a Nominating Committee to identify and recommend candidates for appointment to the positions of Board Chairperson, President and CEO, and Director as required.

The Board has amended its 2005 budget to include funds for a professional recruitment firm to assist in identifying possible replacements for the Chairperson, whose term is expiring in October 2005. The Chair of the Nominating Committee is currently preparing for a review of Board membership to identify any gaps in the Board profile that should be addressed when new members are appointed. Several times in the past two years, the Board has advised the Minister of Board members whose terms were expiring and the skills needed in those appointed as replacements. Three members have continued to serve on the Board after their terms expired in 2004.

### **Training for Board members**

Board members are given opportunities for appropriate training. New members receive orientation sessions when they are appointed, and all members have received other relevant training. Most members attended the two-day session, "Corporate Governance for Federal Crown

Corporations”, presented in 2004 by the Privy Council Office and the Treasury Board of Canada. Several members received training in risk management after its importance was identified in the Board’s 2003 self-assessment. In addition, some members have received training specifically for their work on Board committees, for example, in the areas of finance and human resources.

### **Corporate culture of values and ethics**

Recent events in the private and public sectors have highlighted the need to establish and maintain a corporate culture of sound values and ethics. Board members, officers, and employees of the Mint are subject to its code of conduct and its conflict-of-interest policy. All members signed a declaration in 2003 that they were not in a conflict-of-interest situation with the Mint. This declaration is to be updated annually. The Policy Manual also details a director’s responsibility for managing corporate values and ethics. The Corporation’s current conflict-of-interest policy is scheduled for review by the Governance Committee in 2006.

If the Corporation developed guidance on how Mint employees should respond when confronted with specific risk situations, it could enhance their understanding of how the code of conduct and conflict-of-interest policy apply in such circumstances. This becomes more relevant with the emergence of new ways of doing business and the challenges encountered in the drive to achieve aggressive growth targets.

### **Setting strategic direction**

We found that the Board takes appropriate steps to influence the Corporation’s strategic direction and oversee its management of risk. The Chair meets periodically with the Minister, and over the past few years their meetings have covered strategic direction, renewal of the Board’s membership, and training for its members. The Minister has met occasionally with the entire Board, which welcomed the opportunity to share views on the Corporation’s strategic direction. The Board held a two-day retreat in 2004 to discuss strategic issues, such as key assumptions to be used in the development of the Corporate Plan and management’s proposed key strategies for achieving the Corporation’s aggressive growth targets. At subsequent meetings, the Board monitored the development of the Corporate Plan and approved the final document for submission to the Minister.

Late in 2004, the Board created a Strategic Planning Committee to oversee the development of the Mint’s strategic planning process and initiatives and to monitor this process during the year. We expect this Committee will assist management in determining the key strategic initiatives and ensuring that they are linked to ongoing performance reporting and management of staff performance.

The Board’s Audit Committee has appropriate financial capabilities and has defined its role as oversight of all material aspects of the Corporation’s reporting, control, and audit functions. In 2004 the Audit Committee was actively involved in the initial stages of developing the Corporation’s risk management framework.

### **Information provided to the Board**

We expected that the Board would be provided with the information it needs to fulfill its oversight responsibilities. We found that the Mint’s Board members participate in the development and approval of the Corporate Plan and the capital budget, review and approve business cases for significant new ventures, and receive a list of contracts over \$100,000 at every Board meeting. In addition, the Board receives a quarterly report that includes extensive financial and performance information. The Board actively reviews and challenges management’s proposals and judgments, and before approving management’s requests it sometimes asks for additional information. Generally we found that management provides the Board with appropriate information to allow members to exercise their oversight responsibilities. We also identified a need to improve the

information provided to the Board on capital expansion initiatives and to clarify the types of decisions requiring Board approval.

The Mint has identified a number of key capital expansion initiatives needed to support its corporate objectives. We expected that it would follow a rigorous business case methodology to assess proposed initiatives requiring significant investments outside the scope of its normal operating budget; and we expected that the Board would receive a summary of this information before approving the initiatives. We found that the Mint has a robust and detailed policy and methodology for writing business cases. It generally uses conservative estimates and assumptions for several options that usually include the status quo. Business cases also generally identify and assess the risks involved.

Presentations to the Board, and the background information provided to it, generally summarize the information set out in the business cases. However, the information packages generally do not identify all the options considered in a business case or the risks associated with the recommended option, although this information may be provided orally during the presentation. Such information is important for assuring Board members that strategies have been well-thought-out, researched, analyzed, and evaluated.

We also found that the guidelines for the types of decisions that require Board approval could be made clearer and more specific—for example, when initiatives involve the acquisition of capital assets. The Board approves the capital budget for the year, which includes a listing of the major acquisition items. However, during 2004, management identified additional capital requirements and presented them to the Board for approval, in two specific instances after purchase contracts had already been signed. Clearer guidelines would help ensure that business cases are presented before significant new initiatives begin so the Board can provide appropriate input to their development.

**Recommendation.** *The Board should clarify the types of decisions that require their specific approval. Management should ensure that the documentation provided to the Board supporting such decisions is timely and addresses the options considered and the related risks.*

**Mint's response.** *Agreed. Management will assist the Board in determining the delegation of authority from the Board taking into consideration the need for operational effectiveness. Complete copies of business cases will be provided to the Board as part of future supporting documentation.*

## **Strategic Planning, Risk Management, and Accountability**

### **Strategic planning**

Strategic planning is a management tool that guides what an organization does and why it does it, with a focus on the future. It includes assessing and adjusting the organization's direction in response to changes in its environment, an area where the Board of Directors should play an important and active role. The Corporate Plan ultimately guides the establishment of corporate priority objectives and the allocation of resources to achieve them.

We expected that management would develop and communicate clear strategic plans and direction for the organization, including specific, measurable objectives consistent with the Corporation's mission and capabilities. We expected it would have a well-performing process of strategic planning, clearly aligning corporate objectives and related priorities and plans with its mandate. We also expected that the process would consider a range of relevant information, including key risks and opportunities.

We found that the Mint follows a detailed planning process to establish its strategic direction, based on input from within the organization and the Board of Directors and analyses of external factors that can impact its business activities. The Mint's three corporate objectives are summarized in the 2005–2009 Corporate Plan:

Ensure that Canadian circulation coins are cost-effective and available to meet public needs.

Generate a profit and maintain the long-term viability of the organization.

Create an environment where all employees demonstrate the values of trust, respect, ingenuity, and participation.

The Corporate Plan also contains a summary plan for each of the Mint's business lines. Each summary includes a one-year capital and financial budget and identifies operational objectives and risks. Each business line also prepares a more detailed operational plan that categorizes objectives using a "balanced scorecard."

We found that the Corporate Plan does not link the three key corporate objectives clearly to the operational objectives in the business line summary plans; nor are many of the operational objectives in each summary linked to the goals and objectives in the business line's more detailed operational plans.

**Key strategic initiatives.** It is unclear in the Corporate Plan 2005–2009 which of the many initiatives have the highest priority, what the timeframes are to implement them, and how the initiatives support the corporate objectives. As a result, the Corporate Plan does not appear to be a strategic document that provides direction by identifying the key organizational strategies and related initiatives. The Corporate Plan would be a more strategic document if a relatively small number of initiatives were clearly identified as priorities and monitored regularly by senior management and the Board. The Board's Strategic Planning Committee can assist management in identifying key strategic initiatives and improving the Corporate Plan's strategic focus.

**Growth targets.** In the last three years, a period of significant change and renewal, the Mint focussed primarily on reducing and eventually eliminating its operating losses. For the current and future years, the focus has shifted from reducing costs to achieving significant growth in revenues, with a target of \$1.1 billion by fiscal year 2009.

While each business line has established financial targets, it is not clear how they were set or to what extent they were based on analyses of market opportunities, competitive success factors, and means of building on the Mint's current market position. Although the Mint has surpassed its targets over the last two years, achieving growth targets may become increasingly difficult in the future.

**Impacts on key resources.** Capital and human resources are each considered in separate sections of the Corporate Plan. But how much of these resources are needed for each initiative in the business unit summaries is not specifically identified. There could be shortages of key resources when some of these initiatives are implemented.

**Recommendation.** *The Corporate Plan should clearly identify the key strategic initiatives that are most critical to achieving the Mint's corporate objectives and should indicate how progress toward the objectives will be measured. The three key corporate objectives should be clearly linked to the operational objectives of each business line. The Corporate Plan should clearly identify the resource implications of the key strategic initiatives.*

**Mint's response.** *Agreed. The Mint has included for each business line a significant number of initiatives – there needs to be a distinction between those that are considered “key” versus those that are less critical. Resource implications, while already quantified in the financial section of the Corporate Plan, would serve the reader if addressed as well, in the narrative section of the Corporate Plan.*

### **Risk management**

An effective risk management process identifies, communicates, measures, and appropriately addresses, consistently throughout the organization, the significant risks to the achievement of key corporate and operational objectives. We looked for a corporation-wide approach to risk management, providing reasonable assurance that significant risks and opportunities are identified, effectively evaluated, and addressed in the corporate strategy.

The Mint has established and documented a risk policy that includes underlying principles, roles and responsibilities, and a methodology for managing risk. It has identified and documented its risk profile; developed a detailed risk measurement methodology that considers likelihood, impact, current controls, significance, and value at risk; and documented its risk tolerance. The risk profile and risk tolerance levels have been approved by the Board of Directors. The risk profile includes 50 risks, grouped into four categories.

We expected that management would consider and integrate risk into its planning and decision making. We found that discussion of risk is on the agenda of the Executive Committee's weekly meeting. Each business line summary in the Corporate Plan also considers and documents risk; business cases and the Internal Audit plan include analyses of risk as well.

**Links between risk profile and corporate objectives.** The Corporation's risk policy defines risk as “the possibility that something will go wrong to prevent...the achievement of corporate objectives.” However, we noted that it is not clear how the four categories of risk in its risk profile are linked to the corporate objectives, making it difficult for managers to use the risk profile.

**Strategies for mitigating risk.** A risk management plan identifies each significant risk and its magnitude, the processes or procedures in place to control the risk, significant gaps above the organization's risk tolerance level, and the actions required to close the gaps. Such a plan also links risks to corporate objectives, outlines the timing of corrective actions, and assigns responsibility for those actions.

We found that the Mint has not yet developed a comprehensive plan for managing each of its significant risks. Members of the senior management group are generally aware of the risks in each of the Mint's major initiatives and in their own areas of responsibility. Individually they are taking steps to address these risks; however, the steps are generally not formalized, coordinated, or well communicated within the group and to the Board of Directors.

**Recommendation.** *The Mint should develop a comprehensive plan for managing its most significant risks. The risk management plan should be reviewed by the appropriate Board committee and approved by the Board of Directors.*

**Mint's response.** *Agreed. The Mint has developed a risk management process framework to ensure effective risk management is practised across the organization in a formalized, co-ordinated and well communicated fashion. Subject to the Board's approval, this framework will be applied to the fifty risks in the risk profile, to identify the organization's most significant risks. A comprehensive risk management plan will be developed for each of the significant risks. These plans will be reviewed with the appropriate Board committee and presented to the Board for approval.*

## **Performance measurement and reporting**

Clear measuring and reporting of corporate performance are key to managing effectively and meeting public sector expectations for accountability and transparency. We expected that the Corporation would monitor and report in a fair, timely, and reliable way the progress made toward each corporate objective, using an appropriate balance of performance measures and targets. Our analysis shows that the Mint has identified some performance measures and categorized them using four balanced-scorecard categories: customer satisfaction, internal processes, innovation and learning, and financial. However, it has performance measures for only some of the operational objectives in the Corporate Plan's business unit summaries. It has developed detailed, quantifiable financial performance measures that are monitored and communicated on a timely basis to employees and to the Board of Directors. Non-financial performance is monitored on an ad hoc basis against business line objectives and performance targets. It is reported to the Board by activity or issue, rather than systematically by performance measure as set out in the operating plans. The 2004 Annual Report presents performance against a mix of selected financial and non-financial measures, many of which were not established earlier, in the Corporate Plan.

**Links between non-financial performance measures and corporate objectives.** We also found that except for some limited balanced-scorecard measures and certain elements of its corporate objectives related to finances and profit, the Mint has not identified appropriate measures and related targets linked to each of its corporate objectives.

**Recommendation.** *The Mint should identify a balanced mix of financial and non-financial performance measures linked to the three corporate objectives identified in the Corporate Plan. The measures should then be used for ongoing, formal monitoring and reporting of corporate performance.*

**Mint's response.** *Agreed. The linkage of financial and non-financial measures to the three corporate objectives will enable a heightened level of performance measurement against established objectives.*

## **Marketing and New Product Development**

Marketing involves analyzing and understanding markets, customers, and competitors; seeking and converting opportunities for growth; and managing products, pricing, promotion, and distribution. Marketing initiatives impact the success of the entire business. We expected that the Mint would have a good understanding of the marketplace and would have implemented effective plans and strategies for developing and selling profitable products and services that meet customer demands, create a positive public image, and reflect Canada's culture and heritage.

### **Marketing planning and performance management**

During the last two years the marketing function, which focuses primarily on Canadian numismatic products, has changed significantly. The Corporation recruited new marketing and sales personnel with extensive private sector experience in marketing consumer products; redesigned or tightened planning and management practices in marketing; and prepared to expand into new markets.

Part of this renewal process was to introduce a structured approach to developing marketing plans and monitoring performance. This approach reflects common planning practices in high-volume packaged goods and industrial marketing businesses.

**Analysis of current market position and performance.** Marketing and sales plans are developed and refined progressively, in consultation with marketing and sales staff, managers responsible for Mint production and support functions, finance managers, and senior management. The Mint generates a variety of marketing and performance reports weekly, bi-weekly, monthly, or on demand. These reports contain information on sales and contribution margins in the current period and the year to date, compared with budgets, forecasts, and prior years' results. Depending on requirements, the data may be presented at a high level or broken down by various components. For example, numismatic results may be broken down by sales/distribution channel or by product.

Over the last two years the Mint has commissioned a wide range of market research studies to better understand its market position and its customers' characteristics and attitudes.

**Monitoring of sales and marketing performance.** The success of any marketing or sales plan ultimately depends on how well it is implemented, and success is measured by the results. A critical factor in successfully implementing the plans is the means used to monitor and review performance.

The Mint monitors sales performance by various means, including

- regular meetings of marketing and sales groups to review progress against plans and budgets,

- senior management review of monthly and quarterly reports on marketing and sales results, and

- immediate analysis of any new and emerging issues and opportunities.

The mix of monitoring and review is supported by a sales reporting system that allows for generating various standard and customized reports on sales and margins, either regularly or on demand. This indicates a high degree of performance oversight and a capability to respond to emerging issues and opportunities.

### **New product development**

The Mint has a structured process for generating new product ideas for the Canadian circulation and numismatic business lines, evaluating those ideas against marketing and financial criteria, and managing design and production up to the point of market launch. The Mint introduced this structured process about two years ago and, toward the end of 2004, reviewed and updated it to reflect lessons learned in the initial period of operation and to ensure that it could accommodate an increasing volume of new products. The process is managed by a team with representatives of the Mint's marketing, engineering design, engraving, production planning, purchasing, and manufacturing groups. The team meets regularly to track and review progress.

**The poppy coin.** The Mint usually distributes Canadian circulation coins through the Canadian banking system. However, in 2004 it issued 24 million special commemorative coins (the poppy coin) through an exclusive distribution arrangement with a private sector partner. The poppy coin was issued to recognize Canada's military veterans and to foster greater awareness of Remembrance Day in the Canadian population. The Mint decided to use this new approach in order to increase consumer awareness of the Mint and expand its coin distribution system outside traditional channels.

We found that the Mint had not established a framework for entering into partnership agreements to distribute significant issues of circulation coins outside the Canadian banking system. Such a framework would have identified criteria for selecting appropriate partners, established the general terms for this type of agreement, and ensured that risks and benefits were considered.

**Recommendation.** *The Mint should establish a framework for selecting partners to distribute circulation coins outside the Canadian banking system and should have the framework approved by the Board of Directors.*

**Mint's response.** *Agreed. The Mint will establish a framework for selecting partners. However, due to the diversity of the programs that may exist in the future, it is important to ensure that flexibility will be built in to protect the interests of all parties concerned.*

**Medium-term strategy for product development.** The Mint currently does not have a formal medium-term product development strategy to complement its annual plans and the new product development process. Developing such a strategy would involve analyzing the balance between types and volumes of new products expected in the future and their production requirements, in order to assess the implications for design, development, and production demands. The strategy would provide the link between operational and long-term planning that the Mint currently lacks.

The management of new product development could be enhanced by automating the current spreadsheet-based system of entering and tracking the status of new products moving through the development process. This could be achieved by modifying the Mint's Product Lifecycle Management system or by acquiring a commercial off-the-shelf software product, adapting it if necessary.

### **Sales Contract Management**

The Mint competes for foreign coinage awards with the mints of other countries and with private mints. The world market for coins and blanks is highly competitive. Quality and reliability of delivery are key factors in competitive bidding, but price is most often the determining factor. Contracts awarded to the Mint for foreign coins follow a competitive bidding process conducted by a foreign central bank or other monetary authority.

Foreign coin orders allow the Mint to make effective use of its equipment's excess capacity during slack periods in domestic coin production and obtain a positive contribution toward its fixed operating costs. During the past few years, the number of its foreign coin orders declined significantly due to competition and overcapacity in the global coin market. However, in 2004 the Mint was able to reverse this trend, obtaining eight contracts for foreign coins that generated revenues of \$24.9 million and contributed \$3.6 million toward its fixed costs.

We expected that the Mint would accept only foreign orders that would recover all variable costs and contribute to covering fixed costs, and that it would have adequate, reliable, and timely cost information for preparing price quotes. We also expected that it would submit only quotes that met its profitability targets and were approved by the appropriate officials. Quotes would be based on factors such as order size, type of metal, design characteristics, and previous experience with similar orders. Appropriate production costs and other overheads would be reflected in the quote.

We relied on a recently completed internal audit of sales contract management that had reviewed several foreign contracts and had found no significant deficiencies. However, the audit report identified several areas needing improvement. They included the quality of cost information used in preparing quotes, the quote review and approval process, the management of foreign exchange risk, the review and assessment of credit risk, supplier performance, metal purchasing, and file documentation. The Mint's management has agreed to implement the internal audit recommendations we considered most significant.

## **Production and Distribution Management**

Effective and efficient plant operations are critical to the Corporation's ability to fulfil its mandate. We expected that manufacturing systems and processes would provide for an efficient use of resources and the distribution of high-quality products to meet customer needs on time and cost-effectively.

### **Manufacturing operations**

We found that the Corporation has sound management systems with suitable provisions for setting long-term direction, forecasting, resource planning, scheduling, manufacturing, and measuring results. The documentation of systems and practices is generally complete and up-to-date.

Performance feedback is an integral part of the Mint's management system. In Winnipeg, operational results and key performance graphs are posted regularly for employees. In Ottawa the approach is similar but not as widespread, and not all of the posted information we saw was up-to-date. Both plants use a variety of performance measures including those relating to safety, schedule attainment, and quality. In Winnipeg the Management Review binder provides an extensive record of performance measures, quality system elements, and continuous improvement projects. A key initiative of the Winnipeg plant, reducing scrap, has had positive results.

We observed that plant personnel on the shop floor spend a smaller percentage of their time than in many North American manufacturing operations on activities that do not add value. The visual systems employed (labelling, whiteboards, identification by location) are good, especially in Winnipeg, and the Statistical Process Control program is used effectively to monitor quality. Changeovers of machines from one product to another are better than most comparable operations, and the use of supervisory time is within the norms for similar plants.

Plant managers and supervisors demonstrate a good knowledge of their business and equipment. The plant layouts are essentially sound, and the maintenance management systems are state-of-the-art.

We found that the Lean Enterprise initiatives are progressing well and are planned to continue next year. Management also plans to report total production lead times in its performance scorecards, a positive development since reducing lead times forces a reduction of waste. We noted that the continuous improvement program in Winnipeg is managed well through all stages, including project definition tracking, completion, and audit.

**Labour productivity.** Although improving labour productivity was a focus in the past, more recently it received less attention as the Mint focused on reducing the cost of materials and on the Lean Enterprise initiatives. The Winnipeg performance scorecard includes some measures of productivity, but they do not receive much attention and may not be accurate (for example, they do not reflect brief stoppages such as press jams or planned downtime). The Ottawa performance scorecard does not include any measures of labour productivity. We analyzed labour usage compared with output; we found that direct labour productivity has not improved in the past two years. We also observed a specific drop in the fall of 2004. We noted some opportunities to improve productivity in the area of machine performance (reducing lost time) and better balancing of employee workloads.

Finally, we found that administrative, management, and clerical staff account for about 40 percent of total staff costs—a high proportion compared with direct labour costs. The Mint needs to ensure that it looks beyond the shop floor for opportunities to improve productivity.

**Lean Enterprise initiatives.** The Lean Enterprise initiatives have led to productivity improvements in some areas but not in others. We found that some elements of the Lean Enterprise methodology have not been used as designed.

In Winnipeg, weekly planning activities are driven partly by the current process for plating coins. The Mint is currently upgrading the plating capacity at the Winnipeg plant. As part of this upgrade, management needs to consider opportunities to reduce changeover time and provide for different products to run on each line.

We noted that the focus of the Lean Enterprise initiatives and continuous improvement activities (part of the ISO quality system) is not clear, nor is the division of responsibility between them. If these two complementary activities could be better integrated, both could be more effective.

While the Winnipeg plant's efforts to reduce scrap have shown positive results, at the Ottawa plant there has been no noticeable improvement. While we recognize that numismatic products have more "art" associated with them, metal usage could undoubtedly be improved and costs thereby reduced.

**Recommendation.** *The Mint should enhance its continuous improvement efforts by acting on opportunities to increase labour productivity; expanding the application of the Lean Enterprise methodology; and better integrating Lean Enterprise initiatives with continuous improvement initiatives.*

**Mint's response.** *Agreed. It is important to note that approximately 70% of the cost of goods sold is from metal and the focus for this reason has been on material costs as opposed to labour. Lean initiatives, including cultural value stream mapping efforts currently underway, are aimed at improving communication and understanding between staff in all areas of the Mint.*

### **Coin forecasting and distribution**

Every year the Mint produces about 1 billion coins to meet the demands of Canadian financial institutions, which in turn have to meet the demands of people and businesses for coins. Although it is responsible for estimating how many coins to produce and distribute, it must work in close collaboration with the banking and armoured car carrier industries to ensure that the coins needed for the Canadian economy are produced in the right quantities and denominations and distributed in the appropriate geographic areas and that coin inventories are well managed. We expected that the Mint would have in place appropriate methods for forecasting the demand for coins and distributing them effectively.

The Mint uses an economic model to forecast and plan production and to schedule coin shipments. It takes into account data from the banks on demand, long-range economic indicators, historical patterns around seasonal events such as Christmas, and other key events that generate a demand for coins. Based on this information, the Mint decides how many coins to produce.

To produce and distribute coins as efficiently as possible, the Mint established the National Coin Committee five years ago. Chaired by the Mint, the Committee comprises representatives of all the Canadian financial institutions and armoured car carrier companies. It meets quarterly to discuss issues and problems related to circulation coins and to identify solutions. The Committee plays a key role in helping the Mint ensure the efficient and timely production and distribution of coins required by people and businesses in Canada. The Canadian Coin Pool System established by the Mint in 1987 is jointly managed by the Mint and the other members of the National Coin Committee, each playing its respective role:

the Mint produces the coins;

the banks order coins based on the expected demand from their customers; and

the armoured car carriers hold inventories of coins for the banks and the Mint and move the coins between their terminals (strategically located in 11 geographic areas across Canada), banks, and commercial customers. The armoured car carriers are also responsible for managing coin inventories and reporting to the Mint daily on all coin shipment transactions.

In November 2003, the Mint implemented a new forecasting system that uses historical data and algorithms to predict coin demand by region, armoured car carrier, financial institution, and denomination. The new system has generated positive feedback from the banks and enabled the Mint to better manage coin inventories.

### **Costing systems and practices**

We expected the Mint to be able to determine the full costs of production for each of its products and to determine whether or not its operations are economical and efficient.

We found that the Mint does have reasonably sophisticated cost accounting systems that identify and distinguish between fixed and variable costs, allocate variable costs to products, and provide cost information to support pricing decisions. These costing systems provide enough information to meet the basic needs of senior management and a reasonable capability for reporting by business line and product line.

We also identified structural, informational, and technological weaknesses in these costing systems that impact their capability to provide management with the most appropriate information for decision-making.

**Structural weaknesses.** Manufacturing cost accounting systems allocate variable and fixed costs of production to products based on cost drivers, that is, the factors that most directly influence how much it costs to manufacture a given product or provide a specific service.

In two of the Mint's business lines, Canadian circulation coins and foreign circulation coins (both at the Winnipeg plant), the allocation of fixed costs to products is significantly influenced not by cost drivers but by a memorandum of understanding (MOU) with the Department of Finance. That MOU sets out, in general terms, the costs and the profit that Finance will pay for the production of Canadian circulation coins. The remaining fixed costs of the Winnipeg plant are allocated to foreign circulation coins. The Mint has aligned its costing system with the terms of the MOU, determining full production costs based on what it will be paid. Most businesses take the opposite approach, using costs to set the prices they need to charge.

The MOU gives the Mint certain advantages, providing for certainty of cost recovery within specific production limits and a guaranteed profit. It also allows a significant portion of fixed costs to be allocated to production of Canadian circulation coins, regardless of levels of production of foreign circulation coins.

However, the MOU also has certain disadvantages. It limits the Mint's profit on Canadian circulation coins to a specified amount, regardless of how efficient production is. The MOU also represents a risk for the Mint: it was renewed recently on a year-to-year basis, and any major change in its terms could have a pervasive impact on the profitability of both the Canadian circulation and foreign circulation business lines. The Winnipeg plant's fixed costs are significant, and changes in how they are allocated can have an impact of several million dollars.

Managers need relevant and reliable cost information on outputs and activities to respond to enquiries about costs and to improve operational efficiency and economy. Good cost information also enables senior management to make strategic decisions on resource allocation and to evaluate operational performance. Ultimately, the effectiveness of a cost system lies in the way managers use the cost information provided by the system.

It is difficult to see how the Mint can make the best operational and strategic decisions when its whole cost structure is based solely on how the Department of Finance decides to pay it. As the Mint continues to pursue opportunities to expand its sales of coins and coin-related products and services to other countries, it will be important that it have accurate cost information. That will enable it to determine the full costs of its products and services for foreign sales, including costs of labour and materials and an appropriate share of administrative costs and fixed overheads. This would be particularly important if the Mint were to expand the Alloy Recovery Program to foreign markets.

**Informational weaknesses.** The Mint has well-defined methods of allocating variances to product lines and has procedures for reviewing product line profitability. Its costing system meets the basic information needs of senior management in reporting standard costs, variances, and revenues by both business line and product line. However, the costing information currently provided does not fully meet the needs of middle managers and supervisors and the more demanding needs of senior management.

The Mint's reviews of a product's actual costs against its standard costs are currently ad hoc and consume a significant amount of the finance team's time. This is a very labour-intensive process because of information system limitations. Variances are allocated only at month-end and only to product lines, not to individual products. The result is an absence of relevant and timely information needed for ongoing monitoring of operational efficiency and economy and for ensuring continuous improvement.

A basic cost control in many organizations is the review of actual expenses against budgeted expenses by area of responsibility. The Mint conducts this type of review for fixed overhead costs but not variable overhead and direct labour costs. Consequently, the root causes of variances in such costs are not investigated regularly, which limits the Mint's ability to manage them.

The Mint's plants in Winnipeg and Ottawa currently use a common costing system. However, the nature of their operations differs significantly: operations in Winnipeg are machine-intensive and in Ottawa are labour-intensive. The Winnipeg plant has long production runs of standard Canadian circulation coins, while the plant in Ottawa manufactures significantly different products in smaller quantities.

We found that the costing systems at each plant could be better matched to the nature of its operations. For example, costing information could be improved by reviewing how certain costs are classified as fixed or variable, monitoring the use of plant capacity, and using more appropriate cost drivers in some cases.

**Technological weaknesses.** The Mint's current software systems for cost accounting are old and difficult to use or enhance. The Mint has recognized that its costing systems need upgrading to better meet its current and future needs, and it is considering the purchase of a resource planning system to aid in developing real-time costing systems that would provide the levels of flexibility, detail, and timeliness currently lacking.

**Recommendation.** *When it negotiates its memorandum of understanding with the Department of Finance, the Mint should propose the inclusion of incentives for improving the efficiency and cost effectiveness of its production of Canadian circulation coins.*

**Mint's response.** *Agreed. Negotiations are currently underway on a performance-based Memorandum of Understanding (MOU) with the Department of Finance for 2006 and onward.*

**Recommendation.** *The Mint should improve its costing systems by addressing their structural, informational, and technological weaknesses.*

**Mint's response.** *Agreed. A new Enterprise Resource Planning (ERP) system is being planned for implementation in January 2007.*

## **Human Resources Management**

We expected that the Mint's human resources policies and practices would promote the continuity of operations and the maintenance of a well-qualified, fairly paid workforce focussed on achieving the Corporation's strategic goals and objectives. We looked for policies and practices that would address such key issues as staffing, code of conduct and conflict of interest, workforce planning, compensation, and health and safety. We expected that the Corporation would have developed sound labour relations and appropriate strategies for negotiating collective agreements that meet operational requirements and are consistent with current market trends.

### **Staffing**

We found that while the process of staff selection and appointment at the Mint generally follows good management practices, staffing files did not always contain all the information needed to support the staffing decision. Nor did the files record the time it took to staff the position, an important factor in considering initiatives that will require additional staff.

### **Code of conduct and conflict-of-interest policy**

Each employee, officer, and member of the Board of Directors is subject to the Mint's code of conduct and conflict-of-interest policy. All new non-union employees are given a copy of the conflict-of-interest policy and are required to sign a declaration on conflict of interest. We found that these declarations are not always on file, and there is no annual mechanism to maintain employee awareness of the conflict-of-interest requirements. This could send a message that these requirements are not important.

### **Workforce plan**

The Mint has yet to develop a workforce plan to ensure that it continues to have the number and kinds of people required to drive the growth it envisions. A workforce plan addresses all of the human resource management implications of an organization's strategic plan. It encompasses the entire organization and addresses all the human resources implications of growth, including recruitment and absorption potential for new staff, training, accountability for results, and accommodation. Such a plan is broader than a succession plan and addresses all management's concerns about human resources needs.

**Recommendation.** *The Mint should develop a workforce plan and present it to the Human Resources Committee of the Board of Directors for endorsement.*

**Mint's response.** *Agreed. The Mint will develop a comprehensive workforce plan by the end of 2005.*

### **Compensation policy**

The Mint has a compensation policy based on the principles of internal pay relativity and external pay comparability. We found that the policy is consistent with many best practices, a key exception being that the Mint does not publicly disclose the remuneration and benefits of senior executives and Board members. Although the Treasury Board does not require that Crown corporations disclose this information, several federal Crown corporations have adopted the practice.

### **Health and safety policies**

We found that the health and safety policies, processes, and reporting structures in place meet regulatory requirements. New hourly rate employees are required to undergo a medical examination by a physician but not a thorough eye examination, even though product quality relies on visual inspection. Managers' responsibility for employee health and safety, including related training, is clearly defined, and joint union/management committees promote and coordinate safety and accident prevention programs and monitor activities to address concerns.

### **Management of staff performance**

The Mint has a program in place for performance review and appraisal of managers and supervisors. The results of these assessments determine the individual's performance ratings and allocation of performance pay. Senior managers participate in determining their staffs' performance objectives, which are aligned with specific targets and corporate priorities. However, there is no process for reviewing the performance objectives established for management as a whole to ensure that they address all of the corporate priorities adequately.

We also found that in general, managers did not clearly understand the process used to determine their performance pay—which brings into question its effectiveness. A clear understanding of how their performance pay is determined is essential to clearly linking individual and team performance to the allocation of performance pay.

**Recommendation.** *The performance management process for managers should be structured to ensure that the performance objectives established for management as a whole address all the corporate priorities. The process used to determine performance pay should be clearly explained and communicated to those affected.*

**Mint's response.** *Agreed. The Mint is currently revising its performance appraisal and performance bonus process for management and excluded employees. As a part of this review, the Mint will set in place a mechanism to ensure that the performance objectives established for managerial staff as a whole adequately address all of the corporate priorities. Once this review is completed and the new plan has been approved, as a part of its implementation, the process used to determine pay for performance will be clearly explained and communicated to all of those concerned.*

### **Labour relations**

The Mint maintains an effective working relationship with its two unions. The collective bargaining mandate is approved by the Human Resources Committee of the Board of Directors and supported by a strategy based on corporate objectives, managerial input, operational requirements, and a review of other collective agreements.

## **Security**

We expected that the Mint's security procedures and practices would protect its significant assets and those of third parties against internal and external threats.

We found that the Mint's implementation of security measures, application of procedures, response to events, applicability and currency of documentation, coordination with outside supporting agencies, and situational awareness indicate that it is prepared to respond to threats. In particular, we noted the high morale among security staff and their positive relations with other staff of the Mint. Overall, we concluded that security policies and practices at the Mint are effective, though we identified some areas (discussed below) that need improvement.

In conjunction with Treasury Board Secretariat representatives, Mint security staff completed a review of physical and personnel security measures. The Secretariat found the security measures in those areas to be acceptable and compliant with Treasury Board policy. However, as a Crown corporation the Mint has agreed to comply with the Government Security Policy (GSP), which requires participating agencies to implement a Business Continuity Planning Program. The Mint does not have such a program, but management has indicated that it will initiate one in 2006.

Security policies and standard operating procedures in place are up-to-date, and security officers have current training in emergency response, first aid, CPR, baggage x-ray, safety, firearms, and workplace violence. All Mint employees have received appropriate security clearance and a detailed security indoctrination briefing. However, a recent security review conducted for the Mint's internal audit function observed security personnel several times leaving high-security areas of the Ottawa plant without going through metal detectors, as other employees are required to do.

Security measures for third-party supporting services such as shipping and packaging must meet Mint requirements. They are reviewed by Mint security staff on a recurring basis and, as needed, contracts with support agencies set out required security measures. Potential clients are subject to security background checks before the Mint enters into contracted business activities with them.

The Mint has an Information Technology Security (ITS) policy, currently under review. It is limited in some areas, particularly labelling and control of documents and information. Adopting the ISO 17799 as a model for the ITS policy would make the Mint's policies consistent with Treasury Board Secretariat guidance. A comprehensive network vulnerability assessment of the Mint's IT infrastructure was conducted by outside security specialists in 2004. Management has indicated that it will address the findings and recommendations in 2005.

The Government Security Policy and the TBS Operational Security Standard Management of Information Technology indicate that security requirements for IT systems should be established on the basis of a threat and risk assessment. However, we found that the Mint has yet to complete such an assessment. A formal, corporate threat and risk assessment determines the level of operational risk and includes components of information technology security. The level of acceptable risk is determined and compared with current levels of operational risk so that when asset values, threats, or vulnerabilities change suddenly or significantly, the incremental change in risk can be quickly assessed and security measures implemented as needed. This is consistent with the Treasury Board's Risk Management Framework.

The Mint collects and maintains personal information on its employees. However, we found that no privacy impact assessment has been done. Conducting such an assessment would help ensure that private information is protected in accordance with current regulations and guidance.

**Recommendation.** *The Mint should conduct a privacy impact assessment and a threat and risk assessment.*

**Mint's response.** *Agreed. Both assessments will be undertaken during the 2006-2010 Corporate Plan planning period.*

## **Environment**

We expected that the Mint would know how its strategies and operations impact the environment and would manage any significant environmental risks at its sites and facilities efficiently and effectively, consistent with applicable legislation and regulations.

The processes of refining precious metals and minting coins can have a harmful impact on the environment. An organization's Environmental Management System is a vital component of effective environmental protection.

In managing environmental risks, the Mint has in place many of the key elements expected of a comprehensive Environmental Management System. It is generally aware of the significant hazards that exist and the legislative and regulatory requirements to contain those hazards. However, the Mint has not conducted a Phase 1 Environmental Site Assessment of its Ottawa facility to determine whether past activities resulted in any environmental concerns. Management has indicated that such an assessment would be conducted prior to decommissioning the facility or leasing or selling the Ottawa building and property.

Environmental responsibility is a key objective in the annual corporate objectives and work plans. Water discharges, stack emissions, and noise levels are tested at specific intervals, and hazardous substances are labelled, stored, and handled correctly, using safe practices. Senior management is regularly informed of environmental risk management activities, environmental incidents, and changes to the Mint's legislative and regulatory responsibilities relating to the environment and hazardous substances. For example, senior management was given a presentation on changes to the *Canadian Environmental Assessment Act* that will soon apply to Crown corporations.

However, we noted that current policies and procedures are not well documented. Without current documentation, an Environmental Management System is only as effective as the individuals who administer it. Consequently, the most significant environmental risk for the Mint could well be staff turnover.

Since our last special examination, in 2000, the Mint has engaged consultants to conduct various environmental assessments of its Ottawa and Winnipeg plants. Studies of the Mint's operations have evaluated and assessed environmental risk exposures as a condition for environmental impairment liability insurance. These studies also assessed the Mint's point source air discharges, wastewater discharges, and indoor air quality for compliance with applicable laws and regulations. Recommendations arising from those assessments have been considered and many corrective measures taken to address the findings.

As the Mint continues to develop its Environmental Management System, it needs to ensure that the system is well documented.

Overall, the Mint follows appropriate environmental practices and is aware of its significant environmental risks and hazards. In its operations it minimizes risks to the environment and to the health and safety of its employees.

## **Conclusion**

In our special examination opinion we concluded that during the period under examination, the systems and practices of the Royal Canadian Mint were designed and operated in a way that provided reasonable assurance that assets were safeguarded and controlled, resources were managed economically and efficiently, and operations were carried out effectively.

During the course of our work we also noted opportunities to improve the systems and practices of the Mint. These are reflected as recommendations in this report. Senior management has agreed with all of the recommendations and has indicated that it intends to address them, and in some cases has already begun.

The Board may wish to pay particular attention to monitoring progress in the areas of governance, strategic planning and risk management, and production and distribution management.

**Appendix - Key Risks, Key Systems and Practices and Examination Criteria**

KEY RISKS	KEY SYSTEMS AND PRACTICES	EXAMINATION CRITERIA
<p><b>1. Governance</b></p> <p>mission and mandate not fulfilled in an efficient and cost effective manner.</p> <p>corporate objectives and expected results are inconsistent with shareholder direction and/or expectations.</p> <p>the Corporation's activities and business practices are not consistent with its long term objectives and mandate.</p>	<p><b>Governance Systems and Practices</b></p> <p>Board governance and oversight</p> <p>Performance reporting (including Balanced Scorecard)</p>	<p>The Corporation has a well performing Corporate Governance Framework that meets best practice expectations to help ensure the Corporation fulfills its mandate in an appropriate manner and that the Expected Corporate Results are achieved, resources are managed economically and efficiently and assets are protected.</p>
<p><b>2. Strategic Planning, Risk Management and Accountability</b></p> <p>plans are not achievable given current resources and market conditions.</p> <p>expanding or changing lines of business without adequate analyses and evaluations.</p> <p>management information systems are not aligned with corporate objectives and do not provide appropriate information for decision-making.</p> <p>the RCM may engage in alliances or new ventures which are contrary to their business objectives or carry excessive risks.</p>	<p><b>Strategic Planning, Risk Management and Accountability Systems and Practices</b></p> <p>Corporate Strategic and Operational Planning</p> <p>Business case analysis</p> <p>Risk management framework</p> <p>Management information systems</p>	<p>Management develops and communicates well-articulated and clear strategic plans and direction for the organization that include specific and measurable objectives that are congruent with the Corporation's mission and its capabilities.</p> <p>There is an entity-wide approach to risk management that gives reasonable assurance that key risks and opportunities are identified, effectively evaluated and addressed in the corporate strategy.</p> <p>The Corporation monitors and reports actual progress related to corporate goals and key results achieved in a fair and reliable manner.</p>

KEY RISKS	KEY SYSTEMS AND PRACTICES	EXAMINATION CRITERIA
<p><b>3. Marketing and New Product Development</b></p> <p>missed opportunities for new product development, identification of new markets, promoting its products, services, and technological advantage(s).</p> <p>expansion to inappropriate product lines.</p>	<p><b>Marketing and New Product Development Systems and Practices</b></p> <p>Market research</p> <p>Design approval process</p> <p>Business case analysis</p> <p>Costing systems</p> <p>Code of conduct</p>	<p>Based on a good understanding of the marketplace and sound analysis, the Corporation develops and implements effective marketing strategies and plans to develop and sell products and services which meet customers' needs profitably, result in a positive public image and reflect Canada's culture and heritage.</p>
<p><b>4. Sales Contract Management</b></p> <p>contracts entered based on inaccurate cost estimates.</p> <p>contracts entered that require production capacity in excess of that which is available.</p> <p>contracts signed with inappropriate terms and conditions.</p> <p>failure to meet contractual obligations.</p> <p>inability to collect payment from the contractual partner.</p> <p>failure to adequately protect against foreign currency fluctuations.</p> <p>unethical business practices.</p>	<p><b>Sales Contract Management Systems and Practices</b></p> <p>Marketing and sales promotion activities</p> <p>Quotation process</p> <p>Costing systems</p> <p>Contracting process</p> <p>Code of conduct</p>	<p>The Corporation ensures that adequate, reliable and timely cost information is used as a basis for preparing quotes on sales contracts and that quotes are only approved when they are expected to meet established profitability goals.</p> <p>The Corporation reviews sales contracts prior to approval to ensure that all significant risks are identified and mitigated as appropriate, and ensures that all sales contracts receive appropriate senior management approval.</p>

KEY RISKS	KEY SYSTEMS AND PRACTICES	EXAMINATION CRITERIA
<p><b>5. Production and Distribution Management</b></p> <p>inaccurate forecasts of demand for Canadian circulation coins, numismatic or bullion products, or inappropriate production scheduling may result in the over- or underproduction of coins, cost-inefficiencies or delays in delivery to the customer.</p> <p>loss of business or increased costs due to the inability to manage the supply chain to ensure economy, quality, consistency and timely delivery.</p> <p>production is delayed or halted due to machine or equipment failure resulting from inadequate repair and maintenance or that the finished products do not meet quality standards due to inadequate quality controls.</p> <p>inability to get the product to market in a timely and cost effective manner.</p> <p>plant and /or refinery expansion is inappropriate (too much or too little) to meet customer demand in a cost-effective manner.</p>	<p><b>Production and Distribution Management Systems and Practices</b></p> <p>Canadian Circulation Coin Distribution System (includes demand forecasting)</p> <p>Production management</p> <p>Inventory management</p> <p>Costing systems</p> <p>Repairs and Maintenance of Plant and Equipment</p> <p>Occupational Health and Safety</p> <p>Lean Enterprise</p> <p>ISO 9001 certification</p> <p>Cost comparisons and benchmarking with similar enterprises and/or operations.</p> <p>Business Resumption Plan</p>	<p>Purchasing, manufacturing and distribution systems and processes provide for an efficient use of resources and the distribution of quality products to meet customer needs in a cost-effective and timely manner.</p> <p>The Corporation is able to determine its full costs of production for each of its products and determine whether or not they are using resources economically and efficiently.</p>

KEY RISKS	KEY SYSTEMS AND PRACTICES	EXAMINATION CRITERIA
<p><b>6. Human Resources Management</b></p> <p>Leadership – the Corporation does not have the required executive leadership to enable it to fulfill its mandate, implement its strategic directions and reach its objectives in an efficient and economical manner.</p> <p>Labour risks:</p> <ul style="list-style-type: none"> <li>○ a labour disruption could affect the Corporation's ability to operate its manufacturing and refinery operations;</li> <li>○ inadequately trained staff could have a negative impact on efficiency, productivity and safety;</li> <li>○ union contracts contain provisions that lead to excessive costs, or lack of flexibility in plant scheduling.</li> </ul> <p>Performance awards are not consistent with Corporate objectives and values.</p>	<p><b>Human Resources Management Systems and Practices</b></p> <p>Recruitment, hiring, and retention practices</p> <p>Succession planning</p> <p>Labour relations</p> <p>Performance management</p> <p>Benchmarking</p>	<p>The Corporation's HR policies and practices promote continuity of operations and the maintenance of a well-qualified, fairly paid workforce focussed on achieving its strategic goals and objectives.</p> <p>The Corporation maintains sound labour relations and develops appropriate collective bargaining strategies to negotiate union agreements that meet operational requirements and are consistent with current market trends.</p>
<p><b>7. Security</b></p> <p>security systems and practices fail to adequately protect the Corporation's and its customers' assets, including coin and bullion inventories.</p>	<p><b>Security Systems and Practices</b></p> <p>Security procedures and practices</p> <p>Threat assessments</p>	<p>The significant assets of the Mint and those of third parties are adequately protected against internal and external threats.</p>
<p><b>8. Environment</b></p> <p>Environmental risks associated with the manufacture of the Mint's products may not be identified and managed.</p>	<p><b>Environmental Management Systems and Practices</b></p> <p>Environmental Management Systems and Practices</p>	<p>The Corporation knows how its strategies and operations impact the environment and manages its sites and facilities efficiently and effectively with respect to any significant environmental risks and applicable legislation and regulations.</p>