

REPORT ON
GIANT YELLOWKNIFE GOLD MINES LIMITED

Prepared By
STEVENSON & KELLOGG, LTD.
June 13, 1952

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MANAGEMENT ENGINEERS

OFFICES:

970 SUN LIFE BUILDING
MONTREAL, P.Q.

1002 CANADA PERMANENT BUILDING
TORONTO, ONTARIO

1601 ROYAL BANK BUILDING
VANCOUVER, B.C.

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June 13, 1952.

Mr. P. N. Pitcher, General Manager,
Giant Yellowknife Gold Mines Limited,
Yellowknife P.O., N.W.T.

Dear Mr. Pitcher:

During the course of our recent work in installing the Flexible Budgetary Control, a number of general observations were made concerning organization and practices.

The following is a brief outline of some of the observations and recommendations for your consideration.

I. BASIC ELEMENTS NECESSARY FOR MANAGEMENT CONTROL

The organizational requirements necessary to establish effective management control are:

A. Organization

There must be established an effective organization which clearly defines the duties and responsibilities of each person so that he can be held responsible for the activities and the costs of the work done under his direction.

B. Planning

There must be developed an operating plan so that the objective of the organization can be attained in an orderly way and so that the accomplishment of the work done against this plan can be measured.

C. Standards

There must be established operating standards in the form of budgets, quotas, schedules, specifications, etc., to be used as a basis for measuring performance in meeting the operating plan.

D. Reporting

There must be established the procedures for collecting data and costs in such form that management will recognize where action should be taken.

E. Controlling

There must be issued instructions to correct performance which does not come up to standard.

II. ORGANIZATION

The existing plan of organization of Giant Yellowknife Gold Mines Limited is illustrated graphically on the accompanying chart. There is a logical division according to the functions of mining, milling, geology, assaying, and accounting. The division of responsibilities between the Plant Engineer and the Construction Foreman appears to have developed commensurate with the qualifications of the available staff. Although a working relationship between these two supervisors has developed, it is felt that more effective coordination of the various activities coming under their direction would result under centralized direction.

There are now seven key supervisors reporting to the General Manager. Practical experience in industry has shown that no person should attempt to supervise directly more than four or five people whose duties are inter-related in order to avoid becoming engrossed in details and to have enough time left for measuring the effectiveness of what has been done, for planning, and for giving adequate consideration to major matters upon which he must make decisions.

It is suggested, therefore, that a plan of organization be developed which would distribute the supervisory responsibilities more evenly throughout the staff than at present. Such a plan would establish objectives against which to work. These objectives could be met by training the various individuals in your present organization and by suitable replacements as normal staff changes permit.

In developing such an organization, the duties and responsibilities of all staff positions would be clearly defined in writing. These job descriptions would then become the basis for evaluating the jobs for purposes of arriving at a balanced plan of salary administration.

III. PLANNING

The planning of production and the determination of mining methods to be used at Giant are a cooperative effort of the Mine Superintendent, Assistant Mine Superintendent, and the Chief Engineer. These men appear to have made good use of the information available to them in developing an operating plan for the mining operations.

IV. STANDARDS

A. Methods

Standards of performance should be established only after the best method of doing the work has been determined. Methods studies which take into consideration all factors affecting the work and the various ways in which the work can be accomplished are the best means of determining which is the one best method.

It has been our experience in other mines that decided savings can be realized through improved methods developed as a result of a systematic method study program. It is felt that a knowledge of method study techniques could be applied with distinct benefit at Giant, particularly in view of the increase in mining activity anticipated.

B. Labor Contract Standards and Rates

The administration of the underground labor contracts does not appear to be uniform or consistent. It is understood that this is the result of two factors:

1. The rates themselves have, in many cases, been established without previous experience in similar work under similar conditions or without sufficient study being made of the work and the factors affecting performance.

2. The supply of skilled mining labor during the past few years has been limited and management has adopted the policy of maintaining a high level of bonus earnings throughout the mine in an attempt to hold and attract competent miners. In this respect, it appears that at Giant this policy has been largely successful.

Adjustments made in bonus earnings, either through the allowance of "company time" or by arbitrary increases in bonus earnings per shift, appear to be very frequent. It is felt that such adjustments might be reduced considerably if more study than at present were devoted to a determination of the reasons for adjustments being required. If labor performance and productivity have been good and nothing was earned on contract, a study of the contract rates would be indicated. If, on the other hand, labor performance and productivity have been poor and nothing was earned on contract, effort should be directed toward improving the productivity and skills of the men working on that contract.

It is hoped that the assignment of one man to act as "Contract Engineer" will be instrumental in reducing the number of apparent inequities and in developing uniformity and consistency in the bonus administration. As an aid in attaining this goal, it is suggested that a record of performance be maintained for each contract. Such a contract performance record should show major production statistics and labor performance. In addition, the number of company time shifts allowed should be shown in order that these can be watched closely and kept to a minimum.

C. Budgets

1. Initial Installation of Flexible Budgetary Control

In installing Flexible Budgetary Control at Giant, it was necessary to revise considerably the code of accounts. Although it is felt that the revised code should meet all requirements, it should not be considered to be inflexible, except in the basic pattern. Should it appear desirable to revise parts of it to accommodate changing mining methods or conditions, such changes should be made.

It is recommended, however, that any major change be made only at the beginning of the fiscal year. Additions or minor changes to account descriptions can be made at any time, provided everyone concerned is kept informed.

In developing the initial operating budget, the attempt has been to make it realistic yet simple. Simplicity is necessary in order to permit speed and accuracy in determining current allowances each month and to permit quick and widespread understanding of the budgets. If, in budgeting some costs of relatively little importance, there has been a choice between simplicity and some more accurate presentation, then the policy has been to favor the simple presentation. As the operating personnel become more familiar with their budgets, increasing pressure is usually brought to bear by them to have the budgets reflect minor operating changes. If too many of these suggested changes are adopted, some of the effectiveness in the use of the budget will be lost by the direction of attention more to the minor and less to the major cost relationships.

2. Annual Review and Revision of Budget

Each year, shortly before the end of the fiscal year, a review of the budget should be made for the purpose of making any necessary revisions to reflect the activities and operating conditions anticipated during the next budget year. It is necessary that this work be coordinated by one man who is familiar with the construction of the budget and with its use during the year. At the present time, the man considered most suitable for this work is the Contract Engineer. In coordinating the revision of the budget, he should see that the following program is accomplished:

(a) Production Forecasts

Production forecasts for the year will be made in collaboration with the Chief Engineer, the Mine Superintendent, and the Treatment Plant Superintendent. Management approval of these forecasts should be obtained by mid-April.

(b) Compilation of Budget Data

Key supervisors will be advised of approved activities, standard loaded labor rates to be used, and any other pertinent information required for preparing estimated allowances. They will then prepare their budgets and should return them to the Contract Engineer by the middle of May. The Contract Engineer will then complete the individual detail sheets as necessary, review them for uniformity, note unusual items, and summarize them in final budget form.

(c) Review and Approval of Budget

The final budget for the new fiscal year should be reviewed and approved by management before the year-end.

In general, past performance should not be considered as the yard stick for the new budget without a detailed examination to be sure that abnormalities are not being budgeted. If performance has been better than the previous budget, the improvement should be analyzed and, where warranted, recognized in the new budget. Similarly, if the previous budget has been exceeded, the increase should be analyzed and if operating conditions warrant, a higher allowance should be made. Any new standards of performance arrived at by separate studies made during the year should also be incorporated in the new budget. For mining operations, the standard units allowed in the budget should be reviewed from time to time, to insure that they are still in keeping with the mining methods in use.

V. REPORTING

A. Engineering

In Section IV-B, the suggestion was made that a contract performance record be established and maintained. Since a detailed study of all the engineering procedures, forms, and reports was not made, no further discussion of the engineering records will be included in this report.

B. Accounting

1. General Accounting

General Accounting at Giant is carried out in a conventional manner, with the usual books of entry being kept.

Present methods appear to meet the financial accounting requirements and no changes in the basic methods are recommended. It was observed, however, that very little use is made of standard work sheets or forms where the entries are similar from month to month. Suitably designed work sheets or forms reproduced in Journal Voucher form will usually save many hours of repetitious work.

2. Cost Accounting

(a) General

The purpose of Cost Accounting is primarily to express in dollars the results of the operations in a form in which management can use the information as a basis for making decisions. It is felt that the introduction of the Flexible Budgetary Control and its associated cost statements will fulfill these requirements.

(b) Shop Orders

At the present time there is no formal scheduling or cost control of the work done in the various shops.

It is recommended that serious consideration be given to introducing the use of Shop Orders for determining the cost of the different jobs worked on in the shop.

If a proper Shop Order system is adopted, it would be possible to compare relative costs of doing the work in the Giant shops or "outside". It is felt that economies may be realized by having certain types of work done "outside" rather than in the company shops.

It was noticed that a number of parts fabricated in the shops are made in small quantities as needed. It is suggested that economies in set-up time could be realized if work of this nature were scheduled in the future in economical run quantities.

(c) Work Orders

A Work Order accumulates the total cost of a major repair job or of some phase of the operations for which additional or more detailed cost information is desired, in the same manner that a Shop Order is used to accumulate the cost of work done on a particular job in a shop.

Work Orders are necessary, for instance, to know the cost of doing work for other companies or outside interests, where the cost of doing the work is to be recovered.

Relative maintenance costs of alternative types of equipment can also be determined through the use of Work Orders.

It is recommended, therefore, that a system of Work Orders be adopted at Giant for occasional use, as required, to provide a valuable source of cost information supplementary to the Flexible Budgetary Control.

3. Timekeeping and Payroll

The need for an improved method of timekeeping and payroll preparation to relieve the present staff of some of the work load without the addition of more staff has been increasing steadily. At the conclusion of the work in connection with the installation of the Flexible Budgetary Control, therefore, this problem was analyzed. Recommendations were developed with the assistance of your staff, and it is understood that Mr. Allen is putting these into effect.

VI. CONTROLLING

Under the operation of Flexible Budgetary Control, cost statements prepared each month show clearly where corrective managerial action is indicated. One of the most effective ways of initiating such action is through the medium of monthly cost meetings, in which the key supervisors meet with management. Discussion at these meetings is usually confined to those items of cost which appear to be off standard. This follows the principle of "management by exception" in that the attention of management is focused on those costs that are out of line, rather than on routine costs which are normal or anticipated in the budget. The various supervisors should come to the meetings prepared with explanations for the major variances shown against the costs which come under their jurisdiction.

VII. SUGGESTED PROGRAM

A five-point program is presented here for your consideration. It is felt that the completion of this program would be desirable to provide your management with additional administrative controls.

- A. Arrange that an independent study be made of the organization structure of Giant Yellowknife Gold Mines Limited, which would define the duties and responsibilities of each job.
- B. Evaluate all jobs in their proper relationship to each other, for purposes of sound salary administration.
- C. Arrange that several members of your staff, including the Contract Engineer, be trained in Method Study techniques.
- D. Introduce the use of Shop Orders for purposes of scheduling and cost control of the work done in the various shops.
- E. Introduce the use of Work Orders for accumulating the total cost of major repair jobs or phases of the operations for which additional or more detailed cost information is desired.

We would be very happy to be of assistance to you in carrying out this program.

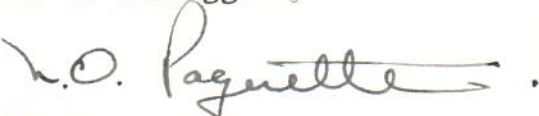
It was a genuine pleasure to work with you and your staff. We wish to express our appreciation for the cooperation and time given to us by all during our work with you.

We are looking forward to being of further service to you.

Yours very truly,


D. K. Bannerman.


L. B. Kellogg.


N. O. Paquette,
President.

LBK:bm

PRESENT ORGANIZATION
OF

GIANT YELLOWKNIFE GOLD MINES LIMITED

