Halifax Regional Council
September 22, 2009

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: *Julia Horncastle*

               Councillor Gloria McCluskey, Chair, Audit Committee

DATE: June 25, 2009

SUBJECT: **Overview of Findings and Recommendations - Procurement and
               Accounts Payable Compliance and Operational Review**

INFORMATION REPORT

ORIGIN

1.   The Motion of Council from the June 19, 2007 Regional Council session, Item 8.5 for a staff report addressing a review of the HRM Procurement Policy which identified a variety of questions:

> "MOVED by Councillor Mosher, seconded by Councillor Hendsbee, that the questions be answered in the broader context of the policy. MOTION PUT AND PASSED."

2.   Motion of Council from the January 22, 2008 Regional Council session, Item 12.1:

> "MOVED by Councillor Younger, seconded by Councillor Smith, that Regional Council request that the Business Systems and Control Group Procurement Payables Review Report come back to Regional Council, with due expediency, discussing why payments are taking so long and what can be done to solve the problem. MOTION PUT AND PASSED."

BACKGROUND

When Regional Council made the initial request for a review of the Procurement Policy, on June 19, 2007, Business Systems and Control had almost completed a compliance and operational review of HRM's procurement and accounts payable functions. With the majority of the field work completed in early June 2007, a draft report was well underway. The final report, titled 'Compliance and Operational Review Procurement and Accounts Payable Halifax Regional Municipality', was filed on June 18, 2008 and formally presented to the Audit Committee on June 17, 2009. The review report addressed pertinent questions regarding HRM's Procurement Policy and the processing of payments under the Accounts Payable Program.

While the full report is yet to be released to the public, following the established guidelines, the Audit Committee, at this time, wishes to provide Regional Council with an update on significant findings and recommendations.

DISCUSSION

1.   HRM Procurement Process

The review determined that HRM's Procurement Policy, Administrative Order 35, appears to have the appropriate checks and balances when compared to peer organizations. No apparent material misuse of the policy was found.

A total of 48 recommendations were made in the following overlapping categories:

- efficiency/process improvements (31),
- control (24),
- training (7),
- documentation (2),
- reporting (6), and
- data integrity (2).

Specific areas of concern noted included a lack compliance with the policy on the part of HRM's business units, a lack of formal documentation of the business practices related to the procurement function, and a gap in the management and consistency of electronic data. The latter findings are not unique to this business process, instead, management has identified process documentation and data management as improvement areas across the organization. Resources and organizational structure have been redesigned to address data management issues on an on-going basis through the Data and Business Information Management section of BPIM.

The review of sole source purchases for the two-year fiscal periods of 2005/06 and 2006/07, revealed no significant deviations from the policy. On average, sole source purchases account for 2% of the number of purchasing transactions and for 1.4% of actual dollars spent.

However, the report does recommend a regular and timely testing of all sole source purchases to ensure HRM continues, over time, to receive the best and most appropriate product or service. For the same reasons, the proactive replacement of price agreements on a regular and timely basis was also recommended.

The HRM Purchasing Card Program, post-work purchase orders and non-bid purchase orders, were other areas of noted low compliance. However, current data indicates that management has taken steps to improve compliance rates within the Purchasing Card Program (currently at 95%, up from 81%) and for non-bid purchase orders (currently at 77%, up from 64%.)

Under the category of efficiency/process improvements, a number of areas were highlighted and recommendations were made to streamline the service delivery for both users and reporting purposes. These areas included the updating and maintaining of commodity/services exception lists, purchase signing authority lists, and vendor contacts. It was also suggested to amend the price agreement process to mirror the purchase order approval process, thus tightening authorization and signing authority controls.

In regard to the role of the CAO and Regional Council in the procurement process, the review disclosed that the signing authority level of HRM's CAO was well below that of comparable municipal executives. Similarly, the review team found the inclusion of low-bid awarded tenders on HRM Regional Council's agenda to be an anomaly. Given that there was no apparent material misuse of the policy, the review team recommended that tender awards to lowest bidder need not be approved by Motion of Council, only regularly reported.

Business Systems and Control's responses to the specific questions posed at the June 19, 2007 Regional Council Meeting are provided with this report as Attachment A.

2.   HRM Accounts Payable Process:

The review team analyzed the timeliness and accuracy of payments, efficiency of processes, and compliance with the Procurement Policy. In relating their findings to Finance's informal customer service standard, which establishes that payment will have been executed within 30 days after receipt of invoice, the team concluded that HRM is well under way to continuously meeting this performance goal, as the standard is met 93% of the time, provided all necessary information is available at the time the vendor submits the invoice.

However, the review team also concluded that Finance accounts payable function is not able to meet this standard when the supporting documentation has not been provided by the business unit on a timely basis. Failure to supply the necessary information results in payment processing cycles of more than 30 days, 49% of the time.

The processing cost of cheque payments had decreased over the period under review. With more and more vendors participating in HRM's electronic payment program, a further decrease of overall payment processing cost is expected for the future.

The efficiency of the accounts payable function, analogous to the procurement process, is negatively effected by a lack of formal documentation of business practices and issues of data management.

A total of 25 recommendations were provided that focus on better utilization of electronic tools to streamline processes, the documentation of business practices, and continuous training at the business unit level to encourage promptness in the validation of payment approval.

BUDGET IMPLICATIONS
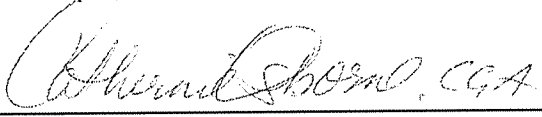
There are no budget implications to this report.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ATTACHMENTS

Attachment A - Responses to questions posed by Council, during the June 17, 2007 Regional Council Meeting.

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by : _____

Cathie Osborne, CGA
Manager of Business Systems and Control, 490-4093

Report Approved by: _____

Councillor Gloria McCluskey, Chair Audit Committee of Council

Further information regarding the contents of this report may be obtained by contacting Cathie Osborne at 490-4093. Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

ATTACHMENT A:

Business Systems and Controls provides the following responses to the specific questions raised by Council. Where issues have been previously addressed, either in the main part of this report or in past submissions by management, reference will be given.

Q: **Does HRM ask other suppliers how they can interface with existing equipment? Is it truly interfacing, i.e. if you are moving into a new building how is it interfacing with something that is not there? Nothing wrong with having one type of furniture in one area and another in a separate area.**
The issue was previously addressed, see Information Report to HRM Regional Council, session on June 26, 2007, Item 10.1.13, 'Procurement Processes for Office Furniture', submitted by TPW and Finance, viz. Attachment B, page 10.

Q: **Is there a location where surplus supplies are kept or does the supplier take it and if it is kept, can it be accessed?**
The issue was previously addressed, see above.

Q: **What happens if the local supplier goes bankrupt?**
The issue was previously addressed, see above.

Q: **Do we publish the awards anywhere and, if not, can we?**
The issue was previously addressed, see above.

A: The review team validated that all rewards are posted to the HRM's website (http://www.halifax.ca/procurement/tenders3.asp.)

Q: **Larger orders are broken down into smaller orders so we don't have to meet the thresholds.**

A: The review team did note incidents of "split purchases". The incidence of non-compliance is now reported to SMT and EMT on a monthly basis.

Q: **Should support due diligence**

A: The Policy speaks to due diligence in purchasing activities, in general. A specific business practice has been recommended and adopted which requires that sole source purchases be reviewed on a regular and timely basis.

Q: **Administrative Order 35 be amended to better reflect the goal of openness, transparency, equity and fairness, and to fully encourage competition.**

A: The HRM Procurement Policy, when compared to those of similar organizations, meets industry standards of best practice. HRM staff are currently considering amendments to the policy to streamline process and tighten reporting and monitoring.

Q: **Report to be prepared on a regular basis and forwarded to Council indicating all transactions that did not follow standard procedures.**

A: The review team made a similar recommendation that all non-compliance be reported on a regular basis to Regional Council. This has been adopted by staff.

Q: **Thresholds should be reduced to match the province and would like the report to comment on that.**

A: HRM's spending thresholds were compared with those of similar municipalities and, generally, found to be on the lower end of the scale. The thresholds cannot effectively be compared to the thresholds implemented by the Province of Nova Scotia, as a different organizational model is being applied by the provincial government. In some areas, HRM's thresholds are higher, in other areas lower, and sometimes altogether different procurement processes are being used.

Q: **Consider inserting an open and transparent process in the mission and policy statement.**

A: Current industry standards, as implemented through best practice, emphasize openness and transparency. HRM's Procurement Policy has been found to meet these standards. Sole source purchases amounted to $2.4 million for the fiscal year 2006/07 which is only 1.3% of total purchases made under the policy.

Q: **Consideration of post-contract review.**

A: Post-contract review is administered through a contract complaint process, established and maintained by Procurement. Complaints regarding poor performance are addressed as they occur, by the Procurement Lead Service Delivery and the Manager of Procurement. Electronic records and hard copy files are maintained.

Q: **Look at past performance.**

A: This issue is addressed above. See 'Consideration of post-contract review'.

Q: **Under sole sourcing - can we prove it is the only contract that could meet the needs for the furniture?**
        The issue was previously addressed, see Information Report to HRM Regional Council, session on June 26, 2007, Item 10.1.13, 'Procurement Processes for Office Furniture', submitted by TPW and Finance, viz. Attachment B, page 10.

A: This question was outside the scope of the operational and compliance review conducted by Business Systems and Control.

Q: **Would like to see the procurement policy included as well as the policy of the province in the report.**
The Information Report to HRM Regional Council, session on June 26, 2007, Item 10.1.13, 'Procurement Processes for Office Furniture', submitted by TPW and Finance, included both documents as appendices.

A: A copy of the Procurement Policy has also been included in the appendices of the review report.

Q: **Look at procurement policies of the provincial and federal governments.**

A: The review team focused on procurement policies of similar municipalities. The HRM Procurement Policy, like the provincial and federal government policies, follows the same industry standards. Most differences can be attributed to spending and purchasing tool thresholds, commodity and/or supply types.

Q: **Provide proof that it was not contrary to policy.**

A: The sole source purchase of the modular furniture was, in fact, identified by Procurement staff as non-compliant with the Procurement Policy, as multiple requisitions were submitted for a single purchase. This prompted Procurement staff to go forward and disclose the transactions to Regional Council in order to obtain appropriate approval, as required under the Procurement Policy.

The Procurement Policy allows for a sole source purchase up to $50,000 provided that
a)   the CAO approves   AND
b)   the purchase falls under one of the sole source criteria (i.e. it concerns safety, security, personnel, legal, and/or emergency matters.)