HALIFAX
REGIONAL MUNICIPALITY

PO Box 1749
Halifax, Nova Scotia
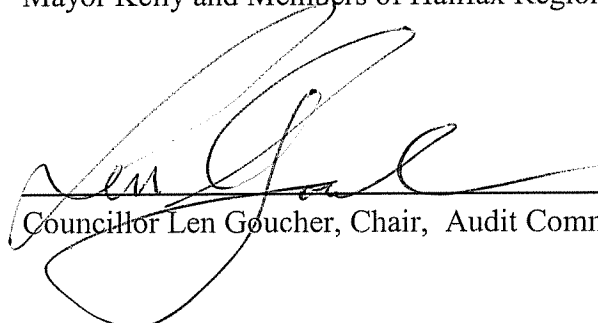B3J 3A5   Canada

Halifax Regional Council
February 7, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: _____

Councillor Len Goucher, Chair, Audit Committee

DATE: January 4, 2006

SUBJECT: **Annual Report March 31, 2005 - Business Systems and Control Group**

INFORMATION REPORT

ORIGIN

Motion by the Audit Committee of Council to forward a copy of the Annual Report of Business Systems and Control Group for the period of January 1, 2004 to March 31, 2005 to Regional Council.

BACKGROUND

The Business Systems and Control Group (BSCG) report to the Audit Committee of Council through the Chief Administrative Officer. Roles and responsibilities are outlined in the Charter, approved in June 2002. Primary duties include providing independent and objective analysis of services, activities and programs carried out by the Halifax Regional Municipality. This is accomplished through the completion of financial, operational (value-for-money), compliance and comprehensive audits following professionally accepted internal auditing standards. In addition, BSCG may also provide independent consulting advice and/or oversee the provision of consulting advice.

DISCUSSION

The Business Systems and Control Group provides an annual report to the Audit Committee through the Chief Administrative Officer which outlines the achievements and performance of the past year. The report provides a summary of significant findings resulting from the work completed over the period and highlights the future challenges envisioned based on the past work. The attached appendices provides a detailed breakdown of the work completed, significant findings and the status or remedial action underway to resolve any findings and implement recommendatoins provided by BSCG and accepted by HRM management. Results of work completed as compared to the annual audit plan is provided with an hourly breakdown by project as the final appendix.

BUDGET IMPLICATIONS

There are no budget implications.

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.

ALTERNATIVES

There are no alternatives

ATTACHMENTS

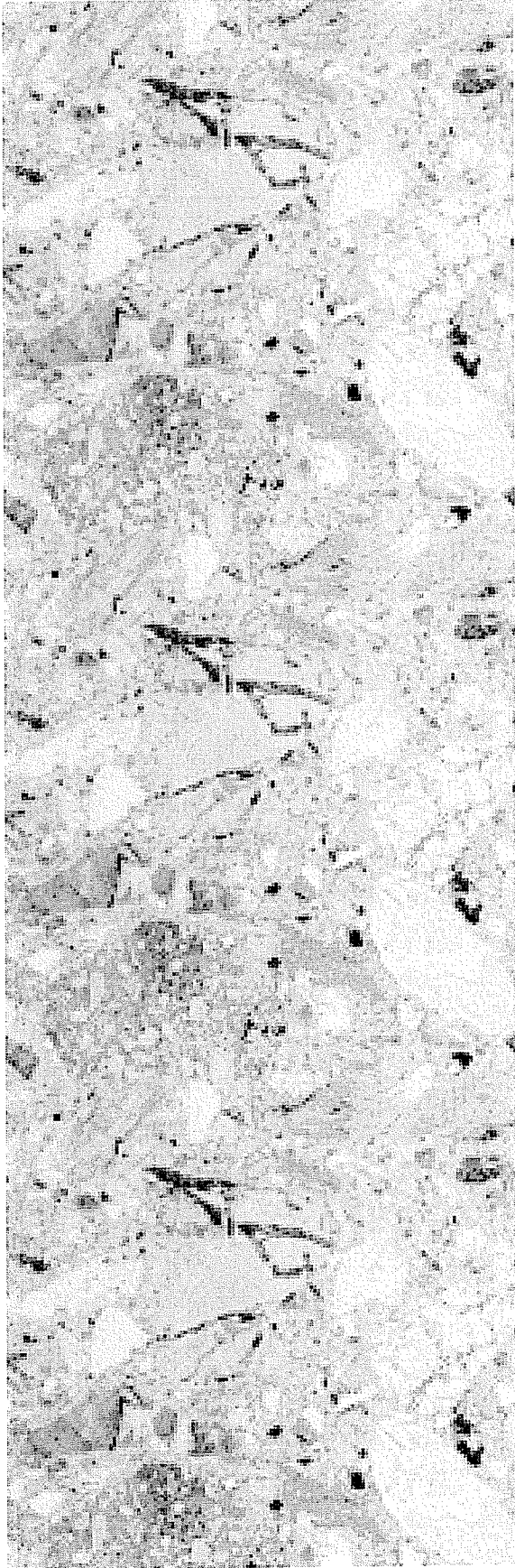1.   Business Systems and Control Group - Annual Report March 31, 2005.

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 :

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Halifax Regional Municipality

Business Systems & Control Group

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March 31, 2005

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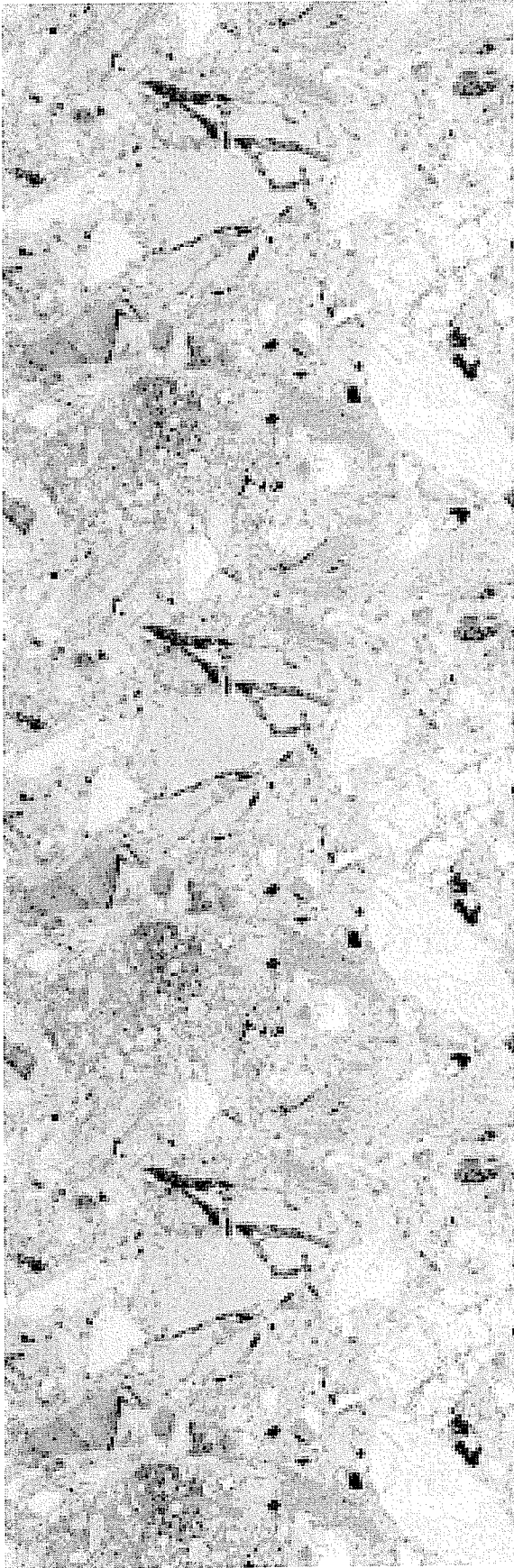
Executive Summary

April 1, 2004 marked the roll out of the first year of a three year Audit Plan developed during the 04/05 business planning process. Resources were focussed in areas where the risk potential and/or opportunity to realize operational improvements for the organization was high. In hind sight the Audit Plan was overly ambitious given the nature of the projects conducted. However, a great deal of substantive work was completed. Details on the scope, findings and status of completed work is included as Appendix #1 to this report. Highlights include:

- Follow -up support to prior years' work
    - Reporting and Control of Payroll, Phase II
    - Operational Review of Snow and Ice Control
    - Review of Non-inventoried Assets & Materials.

- Two Full Operational Reviews
    - Fire Prevention Office
    - General Fleet Service

- Review of Corporate Succession Planning Activities
- Review of Corporate and Business Unit Compliance Documentation
- Review of Street Cut Restorations
- Numerous one-off requests for assistance, reviewing internal controls - various business units and topics.

- Continued advancement of Enterprise Risk Management Strategy for HRM.

Year-end Summary

The basis for presenting an ambitious Audit Plan for 04/05 included the acquisition of resources external to Business Systems and Control Group and HRM. The establishment of a qualified list of experts from which to draw from on an "as needed basis" was not completed until February 2005, much later than had been anticipated.

Scheduled work relating to the broad testing of internal controls in Accounts Payable, Accounts Receivable and Cash Flow was not started. However, a number of one-off projects were completed which will assist in forming the basis of the scope and focus within the, yet to be drafted, terms of reference for each project. Staff will draw upon external resources to conduct data and quantitative analysis, while staff focus on qualitative internal processes and procedures at the various work locations throughout HRM.

Staff provided assistance to the Province of Nova Scotia Department of Justice and, internally, continue to monitor the financial health of a number of HRM benefit plans. Assistance was provided on a number of internal control issues in the area of Reserves and Visa Purchases. Staff conducted a "Work Place Rights Review" and researched a variety of activities ranging from the use of Councillor Committee Stipends for meals to vending machine fees.

Staff represent Financial Services on the Bylaw Rationalization Committee, Transfer Pricing Staff Committee and provide information on our findings and risk assessment to our external auditors. We assisted financial and human resource consultants in areas of subject matter expertise or knowledge.
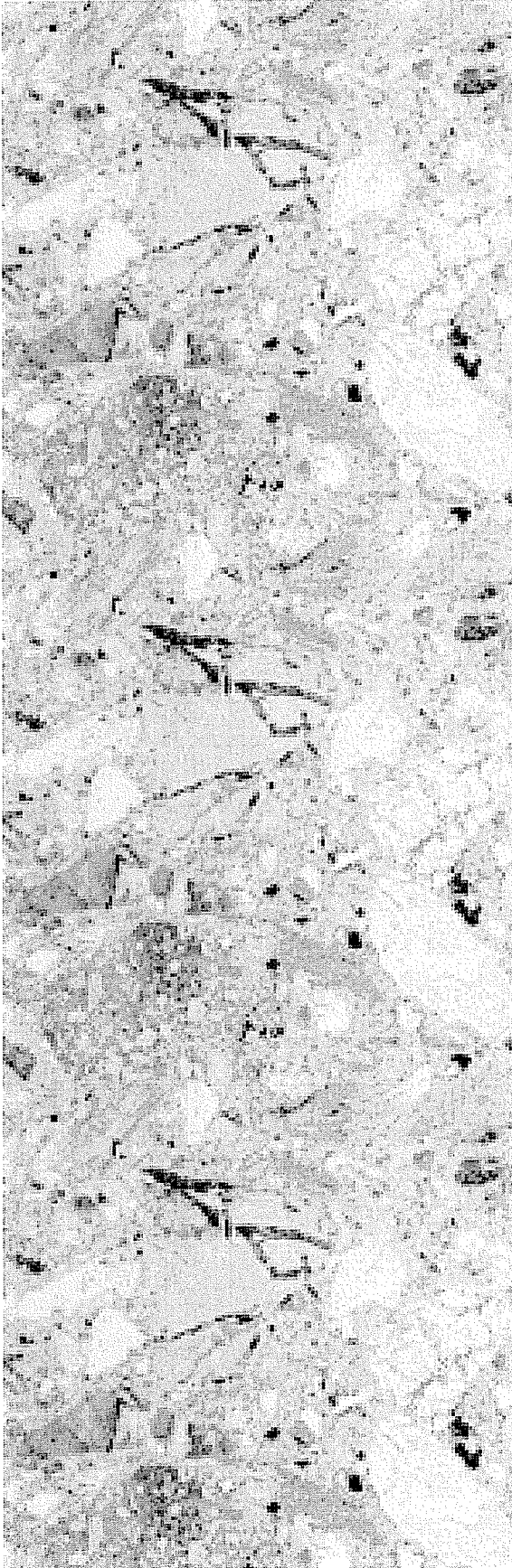
Historical Background

The Business Systems and Control Group was established under the authority of the Chief Administrative Officer in February 2002 to assist management of HRM in the effective discharge of their duties and responsibilities by providing them with objective analyses, appraisals, recommendations, counsel and information concerning the activities reviewed. In achieving this objective, the group acts in both a Business Advisory Role and Policy Compliance Role, using a collaborative and consultative approach with available in-house resources.

Staff is physically located in the Financial Services Business Unit, 3rd Floor, Duke Tower. Depending upon the type and length of time needed to complete an assignment, staff may relocate into the work place under review. A report is filed from each assignment which details the findings and/or recommendations and, where appropriate, a suggested action plan on how the business unit may achieve the recommendations that are accepted.

Achievements

In terms of achievements, the BSCG has focussed its attention on evaluating the effectiveness of internal controls and business processes operating within HRM. The completed work identified an underlying cause of corporate wide system-use failure and developed business solutions for improvements in and out of the electronic environment. This work has been supported by the findings of the SAP Platinum Consultant (Plant Maintenance) hired by Shared Services to review the current use of the PM module and the work completed by Donna Davis, Manager of Data/Business Information Management, Shared
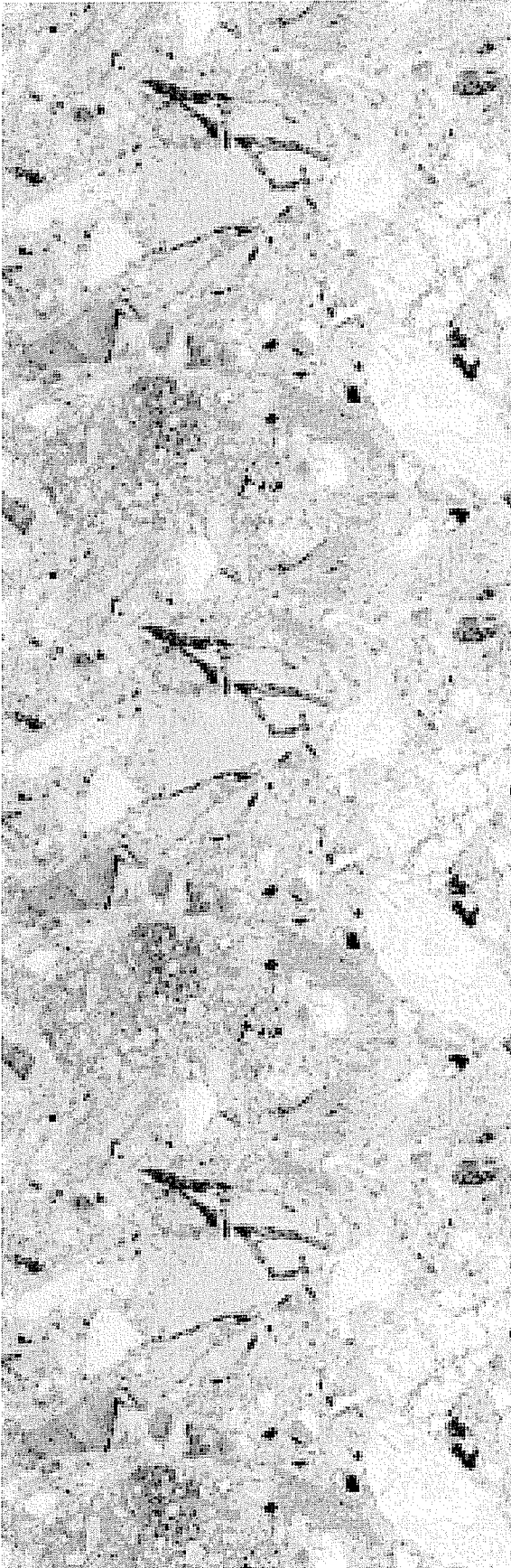
Services.

Services Provided

2004/05 marked the first year that Business Systems and Control tracked hours worked to the approved plan. The full details can be found in Appendix #2.

Planned Hours	2,765 hours
Actual to Planned Work	1,420 hours
Actual to Unplanned Work	245 hours
Administrative Work	589 hours
Continuous Education	<u>100 hours</u>
Non-recorded Work	511 hours

Future Challenges

The focus for 2005/06 will be to complete carry over work from the prior year and assign resources in areas of the organization which reflect a higher risk potential due to organizational changes such as in Recreation, Tourism and Culture. Prior year work includes the completion of compliance reviews for cash handling, accounts payable and accounts receivable activities. Internal resources will be augmented with external resources as appropriate.

In addition, encouraging a formal, structured risk assessment culture within HRM, commonly referred to as Enterprise Risk Management, will require suitable resources to scope out the project and develop an action plan. The first phase of this project was approved as a Strategic Initiative item during the 05/06 business planning process.

Objectives for 2005/06

The objective for 2005/06 includes completing all planned work.

Acknowledgments

We would like to acknowledge the continued recognition and support of the work of Business Systems and Control Group by individuals, SMT, EMT and Council.
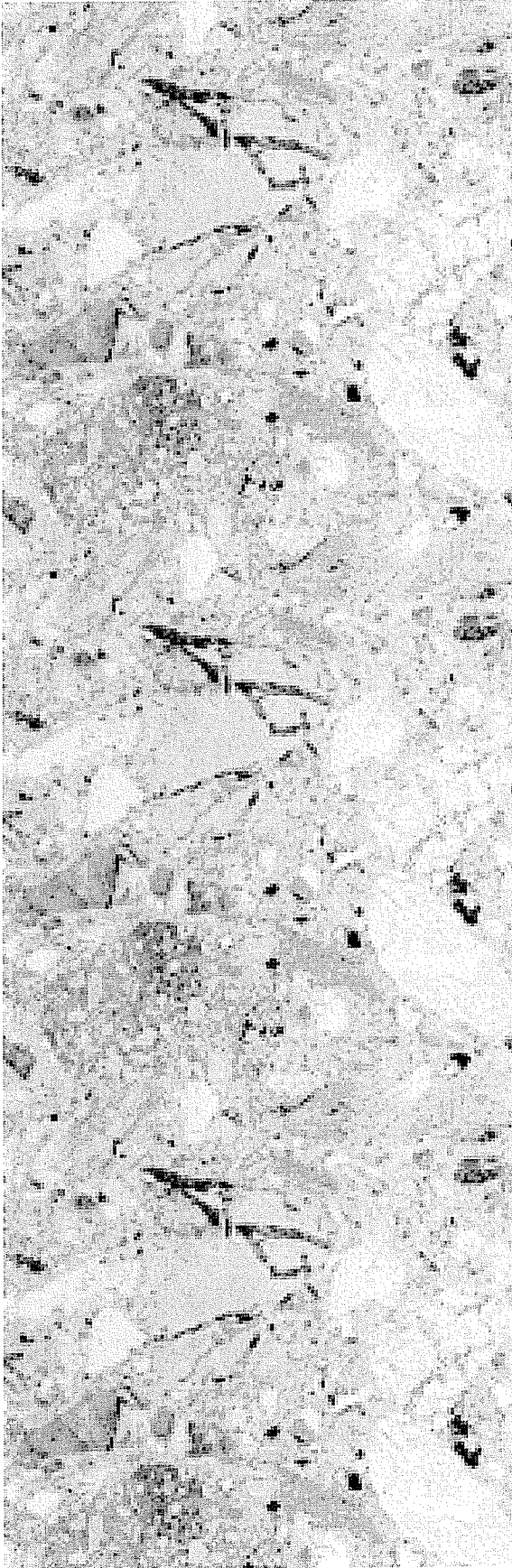
Appendices

Table of Services Provided and Work Completed - January 1, 2004 to March 31, 2005
Business Systems and Control Group

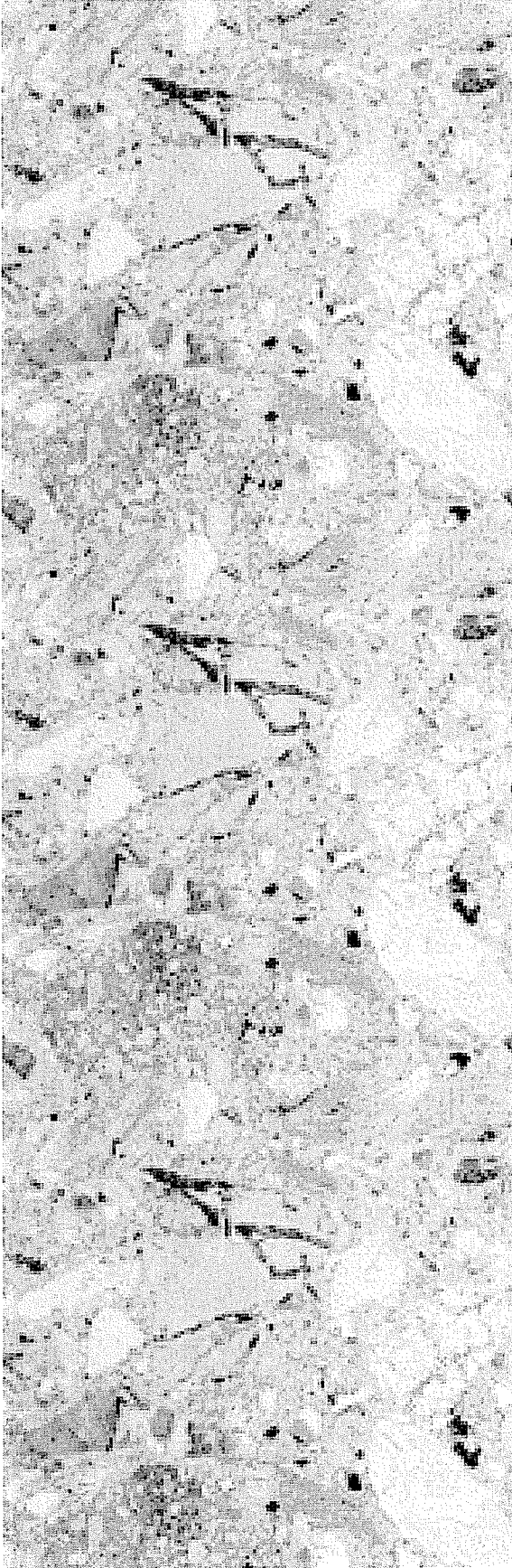| Item	Description of Services	Start Date	End Date	Staff Resources	Significant Findings or Comments	Status or Action
	Items carried over from 03/04					
1	Operational Review of Management Reporting and Control Validation for Payroll, Phase 2 - Comprehensive review of the front-end and back-end transactions associated with the processing of payroll.	Sept 2003	Sept 2004	A Lazarus	Compensation and Benefits is the highest operational risk area for the HRM, and given the results of the internal risk analysis conducted for each business unit, more attention and care must be directed, from the top down, on the authorization, monitoring and reporting of the payroll process. 1. Monitoring and testing of internal controls were not conducted frequently or consistently by HRM Management 2. While there is an expectation that HRM Management monitor and report on compensation and benefits activities, there is little evidence, depending on the business unit, that this actually occurs. There is confusion among the management hierarchy as to who should monitor and how frequently. In some cases, monitoring occurs with the Administrative Assistants (AA) and managers rely on the AA to advise of any unusual items. 3. Full time employee (FTE) equivalents can not be reconciled between the information presented in the budget book and that maintained by the business unit. 4. HRM accrues a liability for vacation benefits and a receivable for employees on an advanced pay basis each fiscal year instead of on a more frequent basis such as bi-weekly or monthly. 5. In some sections of HRM, an independent check of time confirmed on a time sheet/card to an approved schedule or actual amount paid to employees is not conducted. 6. The cost of employer related expenses is not easily obtained under the SAP/HR system.	Management has accepted the report in its entirety and have struck a cross-functional team to implement the recommendations. The Financial Planning group will be establishing a baseline for 05/06..

Appendix 1

Table of Services Provided and Work Completed - January 1, 2004 to March 31, 2005
Business Systems and Control Group

Item	Description of Services	Start Date	End Date	Staff Resources	Significant Findings or Comments	Status or Action
2	Operational Review of Snow and Ice Control Program - PWT	Sept 2003	May 2004	C Osborne	The Final Report highlights the technical proficiency of employees and contractors but also identifies that there is a lack of key performance indicators, standard procedures, limited monitoring, reporting and little service integration across the region. The report identified inefficiencies and the ineffective use of excess employee capacity assigned to SNIC. Very little non-snow winter work is planned. Finally, a liberal interpretation of the non-union overtime policy has resulted in the overcompensation of some supervisors. This findings must be balanced with the acknowledgement that may of these same employees self-identified the key issues for the project team, including the overtime. The project team validated and quantified the impact of these issues. A number of corporate issues were also identified such as interdepartmental charges, use of work orders and costing methodology and accounting issues - accrual of banked overtime, costing allocation of salaried and hourly non-pwt employees.	Management has accepted the report in its entirety and incorporated the basic concepts in negotiations with CUPE.
3	Non-inventoried Materials and Supplies	Nov 2003	Sept 2004	C Osborne J Burgess	Final Report presented to EMT and SMT, September 2004. Using risk analysis to quantify the likelihood and impact of the current business practices for non-inventoried materials and items, the report concluded that non-inventoried assets were at a high risk of loss due to theft, misuse and/or abuse. The report concluded that HRM had sufficient policies in place to establish accountability. However, the report identified that purchasing practices contrary to the Procurement and Visa Card Policies were used to acquire accessible, portable and desirable items.	Management has accepted the report in its entirety and has been tasked by the CAO to develop action plans to address the issues. Short term plans are to focus on physically securing the assets and developing a management protocol to respond to alleged, suspected or known theft in the work place. The medium to long term approach is to develop options for the organization as a whole to track small and moveable assets. Staff have been given until May 31, 2005 to report on the progress accomplished by Directors Dale MacLennan, Mike Labrecque and Mike Eddy.

Items included on 04/05 Audit Plan

| 4 | Bylaw Costing Model | Apr 2004 | On-going | Cathie Osborne | Have made contact with Bylaw Integration Group; provided limited feedback on costing model but have not reviewed a model, if it has been developed. | Follow up with Project Manager will continue into 2005. |

Appendix 1

Table of Services Provided and Work Completed - January 1, 2004 to March 31, 2005

Business Systems and Control Group

Item	Description of Services	Start Date	End Date	Staff Resources	Significant Findings or Comments	Status or Action
5	Compile, index and develop access to Corporate Policy/procedures, etc documentation	Jan 2004	On-going	C Osborne	Documentation continues to be collected. Majority of documentation received from Business Units has been entered into stand alone database. BSCG has used the database to conduct research on internal policies/procedures/practices over the year.	A lack of committed resources has stalled this project. Discussion has occurred with Shared Services Information Management Group who are willing to assist in developing corporate access opportunity. However, resources (space, employee, electronic solutions) are not available at this time.
6	Review corporate approach taken in identifying and developing succession plans, where necessary	Oct 2004	March 31, 2005	C Osborne	Human Resources identified succession planning as an organizational issue in 2000. Two out 12 business units have identified and developed formal succession plans. Six business units have identified succession planning as an issue and started some evaluation but have not developed a formal approach. The remaining business units (4) self identified that no work has begun or did not respond to the request for information. Based upon the work completed, TPW appears to be the area of greatest impact due to the workforce's eligibility for retirement.	A draft Report has been presented to Director of Human Resources for feedback. Tentative meeting set up with DCAO and CAO to discuss and communicate findings and recommendations to the organization.
7	Operational Review - Street Cuts - Ensure that internal practices for street restoration meet the Scorecard Theme of Excellence in Service Delivery standards required of the private sectors.	March 1, 2005	June 30, 2005	A Lazarus	Preliminary information received during discussions with staff indicate gaps in process and information sharing between business units. A full report identifying gaps and recommendations will be presented at the end of the review.	Terms of reference developed and project work has begun. A final report will be presented to the DCAO, CAO and applicable business unit Directors in June/July 2005.
8	Operational Review - General Fleet Services - Ensure the current service delivery model for General Fleet Services meets organization and end user objectives for accountability, efficiency and effectiveness.	Sept 2004	March 2005	A Lazarus C Osborne	The review indicated a need to improve work flow processes, better use of available integration of SAP Enterprise Management System. Additionally, there is a need to conduct and update the inventory of rolling stock and small equipment; improve controls around work assignments; monitoring and reporting on maintenance and repair costs, vehicle usage, fuel consumption and compliance with repair requirements. Findings specific to the use of SAP extend corporate wide and can not be singularly attributed to General Fleet's use of the system.	The draft report has been circulated to appropriate Directors/Managers, and we are awaiting feedback on clarifications or corrections. Any necessary corrections to information will be completed and the final report filed with the DCAO and CAO. Concurrent with this action, the Directors of Financial Services and Shared Services will be advising the CAO of the corporate issues pertaining to the use of SAP.

Appendix 1

Table of Services Provided and Work Completed - January 1, 2004 to March 31, 2005

Business Systems and Control Group

Item	Description of Services	Start Date	End Date	Staff Resources	Significant Findings or Comments	Status or Action
9	Operational Review - Fire Prevention Services - Ensure that Fire Services has capacity to delivery services for new bylaws and that service delivery model supports the corporate, integrated vision through manual and technical processes.	April 2004	June 2004	A Lazarus C Osborne	The Fire Prevention Office operates with limited or outdated policies, procedures, standards or guidelines. Tools used to gather data or information that support best practice decision making and performance measurements are miss-applied or insufficient for the activities undertaken. Job function and organizational structure are miss-aligned with the service delivery needs. Fire Prevention has not been able to leverage internal and external resources to Fire Services in order to efficiently or effectively meet its mandate. Fire Prevention is not meeting their legislative mandate.	Final report has been filed and accepted in its entirety by Fire Services Management. An action plan has been developed and work is on-going on recommendations. Restructuring and reassignment of functional duties has occurred. Limitations in data and information management have been scoped-out but not fully implemented.
10	Compliance Review of Internal Controls of Cash - Ensure organization has identified and recorded all revenue sources - HROP, Trusts, Reserve Accounts	NA	NA	A Lazarus C Osborne	Preliminary work in compiling documentation has been on-going over the year. BSCG is working with Financial Consultant Barb Palmeter. One-off review of the Heritage and Culture Reserve was begun in March 2005. Findings will not be available until after May 31, 2005.	Full project was delayed pending the completion of an Expression of Interest to acquire additional external resources to assist staff in completing the project.
11	Compliance Review of Accounts Payable and Visa Purchases - Ensure organization is in compliance with its procurement and disbursement policies.	NA	NA	A Lazarus C Osborne	Preliminary work to compile documentation has been on-going over the year. Some one-off reviews have occurred due to the nature and/or urgency of the request. See below for full details. As a result of Financial Services conducting regular control checks of VISA purchases, the project will be delayed 6 months to enable sufficient data to be collected under the amended policy. Subsequent work completed under the Non-inventoried Asset Review indicate limited compliance with Procurement Policy - VISA use.	Full project was delayed pending the completion of an Expression of Interest to acquire additional external resources to assist staff in completing the project. During this fiscal period, management has also begun an internal control check of VISA purchases and reissued an amended process policy document.
12	Compliance Review of Accounts Receivable Processes - Ensure that the organization is in compliance with its recording, collection and interest policies.	NA	NA	A Lazarus C Osborne	Preliminary work in compiling documentation has been on-going over the year. The Revenue Tool Project sought and received feedback on Expression of Interest Document.	Full project was delayed pending the completion of an Expression of Interest to acquire additional external resources to assist staff in completing the project.
13	Development of Corporate Fraud Policy - Research and develop an appropriate Fraud Policy.	Dec 2004	On-going	C Osborne	Preliminary research has been completed. Resources will be assigned to draft policy during the 05/06 fiscal period.	On-going
14	Enterprise Risk Management - Establishment of an ERM for HRM	Dec 2004	On-going	C Osborne	Project submitted and accepted as a strategic initiative as part of the Business Planning Process.	Need to assign resources to develop an action plan.

Appendix 1

Table of Services Provided and Work Completed - January 1, 2004 to March 31, 2005

Business Systems and Control Group

Item	Description of Services	Start Date	End Date	Staff Resources	Significant Findings or Comments	Status or Action
	Items not included in 04/05 Audit Plan					
15	Secondment to Department of Justice	May 2004	On-going	A Lazarus	Request of DOJ for analytical support provided by Abel. All costs recoverable. Current charge out of 68 hours.	Project is still on-going but resource demand is limited and sporadic.
16	Heritage Reserve Funds Authorization - Ensure process used to distribute funds meets policy/procedure in place at various times. (Pre-2003)	Oct 2004	May 2005	C Osborne B Palmeter	Two separate funding sources - Heritage private property funding through Council approved Heritage Incentive Program through the operating budget. HRM Owned heritage property eligible for funding from Reserve. Management for the Heritage Incentive Program transferred from Recreation Tourism and Culture to Planning and Development.	Project is on-going. Interviews are being conducted with key stakeholders. Findings will be considered in the development of Terms of Reference for Revenue Recognition and Cash Control Reviews.
17	Workplace Rights Complaint - Transit Garage	Dec 2004	Jan 2005	C Osborne	Allegation that employee was denied work opportunity based on union involvement was upheld. Report filed with Director of RPAM.	Issue resolved between the two parties. On-going training provided, as necessary.
18	Councillor Stipends - Research and report on the appropriateness of any formal or informal practices pertaining to the use of stipends for personal expenses	Oct 2004	May 3, 2005	C Osborne	Copy of C. William Hayward's Stipends Advisory Committee Report was received April 29, 2005. Recommendations in the report recognize the authority of the MGA which includes the provision that "no additional compensation shall be provided to Councillors serving on Committees to which they have been appointed by Council. If committee fees are received by the Mayor or Councillor rather than the Municipality, such fee shall be deducted from the stipend from the HRM." The report does not deal with the use of funds received by the HRM resulting from committee appointments by Council. No formal policy was adopted by Council. There is no informal practice in place at this time.	Response delayed waiting for the Corporate Library to locate document. Document located and research completed May 3, 2005.
19	Provide advice - various business units/topics	April 2004	March 2005	A Lazarus C Osborne	General advice provided on internal controls to Environmental Management Services, Human Resources, Shared Services, Financial Services.	Provided as needed.
20	Special Review request of DCAO	Feb 2005	May 2005	A Lazarus C Osborne	Review and analyse departmental budget, expenditures and use of HRM Visa Purchase Card.	Review is still in progress

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2004/05 Hours logged against Audit Plan ending March 31, 2005

Proj #	STAT Number	Stat. key figures/cost centers	Actual	Plan	Var.(%)
04-03	MAADEM00	Bylaws, costing model	1.0	35	0.04%
	MAADEM01	Provide advice EMS-VARIOUS PROJECTS	4.0	0	0.14%
	MAADFS00	Fiscal Accountability/sustainability	2.0	0	0.07%
04-02	MAADFS01	Corporate Compliance policies, etc	36.0	100	1.30%
	MAADFS02	Provide advice FS-Rev Project	10.5	0	0.38%
	MAADFS03	Provide advice FS-VARIOUS PROJECTS	27.0	0	0.98%
	MAADHR01	Provide advice HR- GENERAL	25.0	0	0.90%
04-07	MAADLE01	Corporate Succession Planning	34.5	70	1.25%
	MACMRP01	Compliance Review - RPAMS - WPRights	14.0	0	0.51%
	MAFI0S01	PROVIDE SERVICES TO PROV NS DOJ (AL)	68.5	0	2.48%
	MARMHM00	Risk management-HRM-Payroll ph 1, 2	58.5	0	2.12%
04-06	MARMHM01	Risk management Cash controls	17.0	800	0.61%
04-08	MARMHM02	Risk management Accounts Payable/Visa	0.0	30	0.00%
04-09	MARMHM03	Risk management Accounts Receivable	0.0	200	0.00%
04-10	MARMHM04	Risk management Invent/asset	75.5	70	2.73%
04-01	MAVAFR01	Operational Review Fire Services	547.5	250	19.80%
	MAVAPW01	Operational Review SNIC 03/04	35.0	0	1.27%
04-05	MAVARP01	Operational Review RPAMS	698.5	1140	25.26%
04-04	MAVAPD01	Operational Review Street Cuts	10.0	70	0.36%
		Administrative work, Cathie - budget, planning, email, education, meeting prep work, etc.	339.5	0	12.28%
		Administrative work, Abel	150.0	0	5.42%
		Education/Training/Conferences	100.0	0	3.62%

Summary:

	Actual	Plan	Var.(%)
Nonplanned Work (includes consultation)	244.5	0.0	9%
Completed Planned Work	1420.0	2765.0	51%
Administrative Work	489.5	0.0	18%
Continuous Education	100.0	0.0	4%
Non captured hours	511.0	0.0	18%
Total		2765	100%