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Halifax Regional Council
October 10, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


Cathie O'Toole, CGA, A/Director of Finance

DATE: October 10, 2006

SUBJECT: Discretionary Expenditures

INFORMATION REPORT

ORIGIN

June 27, 2006 Budget and Business Planning Parking-Lot item.

BACKGROUND

During the budget discussions for the 2006/07 fiscal year, Council requested that the Chief Administrative Officer review the feasibility of implementing a moratorium on expenditures such as travel, training, books and periodicals, consulting fees, memberships and dues.

DISCUSSION

Many of the classes of expenditures that are referred to as discretionary, are in fact essential to the continued operation of the municipality. Discretionary is an appropriate descriptor for these expense categories to some extent however, because these expenditures are largely controllable. A moratorium on these categories of expenditure is not advisable as it would negatively impact the delivery of services to the public.

In the table below, these categories of expenditure are described in the context of the overall HRM operating budget of \$630,928,037.

Expense Category	Budget for 07/08	% of Budget	\$ per FTE
Travel	\$1,314,406	0.21%	\$364
Training & Education	\$1,817,972	0.29%	\$504
Legal & Consulting Fees	\$1,622,006	0.26%	\$449
Office Furniture	\$839,637	0.13%	\$233
Books & Periodicals	\$1,746,591	0.28%	\$484
Conferences & Workshops	\$302,581	0.05%	\$84
Professional Fees**	\$19,257,618	3.05%	\$5,336**
Memberships & Dues	\$327,547	0.05%	\$91

*** Professional Fees are not relevant expressed per FTE, because the Professional Fees are actually paid to external contractors for Solid Waste Management.*

All such expenditures are conducted in accordance with HRM policies such as the Procurement Policy, Local & Out of Town Travel Policy, and the Procurement Card (Visa) Policy. Additionally, there are internal control procedures in place around ordering goods and services and processing invoices, cheque requests, and travel claims for payment. The processes for purchasing goods and services and reimbursing expenses are meant to ensure maximum value for tax dollars, to prevent fraud, while keeping administrative burden and cost at a minimum. An overview of how HRM employees order goods and services is attached. (Attachment C)

Travel

Travel expenditures support delivery of municipal services to the public in two key ways: a) delivery of services where travel is an operational necessity and b) training, development and retention of staff. Travel accounts for only 0.21% of HRM's budget. A break down of travel by business unit, as well as the number of employees within the business area per the 2006/07 Budget Book is attached. (Attachment A)

The Business Systems Control Group has conducted a risk analysis related to employee expense reimbursements, and reviewed compliance with HRM travel policies and employee expense

reimbursements related to travel. Based on the recommendations from this risk analysis, and some work that Finance already had underway with respect to Local and Out of Town Travel, a new combined HRM Travel Policy is being prepared for implementation in Fall 2006. Successful implementation of the new policy will result in increased controls, transparency, and accountability around travel expenses by HRM employees and Councillors. Attachment B outlines some changes being implemented in the employment expense reimbursement process.

Training & Education

Training and Education accounts represents \$1,817,972 or 0.29% of HRM's operating budget. Organizations which are employers of choice typically have a training budget equivalent to 1 - 2% of their operating budgets. In HRM's case, 1 - 2% would equate to \$6,309,280 - \$12,618,561. A rule of thumb is 1% for corporate training, and 1% for technical/applied training. Training is an important tool to attract, retain and develop employees, and to increase the quality of service delivered to taxpayers. Considering the challenges of demographics and succession planning in HRM's workforce, HRM will need to increase the training budget as employees retire, and new employees are hired. New employees will require a significant investment in training to help offset the skills and talents lost with the retiring experienced employees. As the employment market becomes increasingly competitive, if HRM's salaries do not keep pace, travel and education and other investments in employees which promote improved morale and a sense of value and loyalty will become increasingly important. Additionally, for certain professions with rapid technological change such as the information technology field, training is a necessary component to maintain skills.

Legal and Consulting

Legal and Consulting represents \$1,622,006 or 0.26% of HRM's operating budget. Occasionally, it is necessary to utilize external legal resources to meet timelines/manage internal workload, or to acquire specialized skills.

Office Furniture

Office furniture purchases represent \$839,637 or 0.13% of HRM's operating budget. With the passing of the 06/07 Operating Budget, HRM Council approved hiring of 73.5 new FTEs, most of whom will require work stations and office equipment to conduct their duties. A list of FTEs approved through the Budget and Business Planning Process is attached (Attachment B). Additionally, the lifespan of most office furniture at HRM is approximately 10 years so replacement of aging or damaged furniture is necessary to maintain a safe and productive work environment for employees. As HRM's workforce ages ergonomics and having properly configured work environments are becoming more important.

Books & Periodicals

Books and periodicals are budgeted at \$1,746,591 for 2006/07, and represent approximately 0.28% of HRM's operating budget. The bulk of this cost (93%) relates to purchases of books and

periodicals for Libraries. The remaining 7% (\$122,261) is spread across many business units and most purchases are related to specialized fields or professional publications for engineers, accountants, lawyers, architects. Such purchases aid in professional development of employees, provide information on best practices and new technologies.

Conferences & Workshops

Conferences are budgeted at \$302,581 for 2006/07, and represent 0.05% of HRM's operating budget. This is a very low percentage of operating budget, compared to organizations that are considered employers of choice. Conferences and workshops are typically considered part of Training, particularly for technical or applied skills. Collectively, HRM's Training and Conferences budgets together are 0.34% of HRM's Operating Budget, well below the 1% operating budget target of organizations that are considered employers of choice. All out of town conferences/workshops must be approved by the applicable Business Unit Director, Deputy CAO, or CAO.

Professional Fees

Professional fees account for 3.05% or \$19,257,618 of HRM's budget. Most of the professional fees (95%) are incurred by Environmental Management Services, Solid Waste. These charges are the solid waste removal contracts.

Memberships & Dues

Memberships and dues represent 0.05% (\$327,547) of HRM's Operating Budget. These expenditures are spread across many business units and include memberships to organizations such as Federation of Canadian Municipalities (FCM), Union of Nova Scotia Municipalities (UNSM) Association of Municipal Administrators (AMA). The largest portion (34%) \$112,700 is within the Clerk's Office for UNSM and FCM memberships. \$58,000 or 18% of these expenditures relate to memberships and dues for HRM Legal Services staff. The balance of the memberships and dues are spread across the organization and pertain to maintaining professional designations and memberships for HRM employees who are engineers, accountants, architects and planners. In some cases, maintenance of credentials and professional memberships is necessary to render the professional eligible for coverage under professional liability insurance while conducting HRM business.

BUDGET IMPLICATIONS

There are no budget implications at this time.

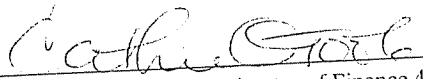
FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

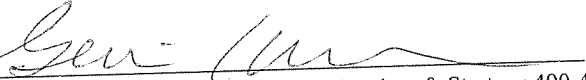
This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ATTACHMENTS

- Attachment A - 2006/07 Budgeted Travel expenditures and FTEs by Business Unit
- Attachment B - List of FTEs approved through 2006/07 Budget & Business Plan Process
- Attachment C - Memo from A/Director of Finance to Manager of Business Systems & Controls
- Attachment D - Overview of process HRM employees use to order goods and services

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 O'Toole, CGA - A/Director of Finance 490-6308

Report Approved by: 
Geri Kaiser, Deputy CAO - Corporate Services & Strategy 490-4630

Division	FTEs	Travel
CAO & Gov.	60.5	\$119,331
Community Dev.	257.5	\$235,055
EMS	187	\$231,369
Police	673	\$60,400
BPIM	179	\$100,767
Legal	17	\$7,273
Human Resources	51	\$15,000
TPW	1,215.2	\$346,720
Fire	465	\$130,591
Finance	152.5	\$28,400
Library	271.3	\$36,000
IES	80	\$3,500
	3,609	\$1,314,406

Business Unit	Operating Positions In Business Plan - Approved
CAO	1 FTE: administrator, Community Response 1 FTE: Mayor's office Project manager
BPIM	
CCED	2 FTEs: facility development 3 FTEs: community developers
EMS	2 FTEs: convert pollution prevention officers from term to permanent
FINANCE	2 FTEs: Inventory Asset Mgmt
FIRE	8 FTEs: firefighters 1 FTE: maintenance technician Eliminated: Risk Mgmt Technician
HR	2 FTEs: Workers Comp Mgmt
LEGAL	1 FTE: senior solicitor
LIBRARY	Contract out janitorial position (Hfx. North) 2 FTEs: capital campaign Eliminate Mgr Systems & Tech Services and hire at lower level 1 FTE: Keshen Goodman, Occupational Health & Safety 2.5 FTEs: Youth workers
P&D	Eliminate 2 FTE's: Building Insp. Eliminate 1FTE: Admin Support 4 FTEs: planners 1 FTE: Community Standards office funded by sign by-law
POLICE	24 FTEs: Police officers 3 FTEs: Civilian
TPW	2 FTEs: convert from term to permanent 7 FTEs: Functional changes 1 FTE: Right of Way Engineer Additional bus drivers - see capital sheet

MEMORANDUM

TO: Cathie Osborne, Manager of Business Systems & Controls

CC: Audit Committee

FROM: Cathie O'Toole, A/Director of Finance

DATE: September 18, 2006

SUBJECT: Management Response to Employee Expense Reimbursement Risk Analysis

Thank-you for your report dated July 26, 2006 entitled "Employee Expenses Risk Analysis".

Finance staff have reviewed the findings in the report; and have identified that it will be possible to act on all of the recommendations and findings. A majority of the recommendations can be implemented by October 31, 2006.

In fact, some actions to improve the accountability, reporting and control around employee expense reimbursements commenced prior to the completion of this report as Finance staff recognized there were some opportunities for improvement with respect to expenditure reimbursements for both staff and Council.

A new Local Travel Policy was implemented in July 2006, retroactive to April 1, 2006. This policy replaced a Local Travel Policy that dated back to 1998. Additionally, a working group has been reviewing the Out of Town Travel Policy and have completed a revised policy; the implementation of which will now be conducted as part of the implementation of the broad recommendations and findings from the "Employee Expenses Risk Analysis" report. The current Out of Town Travel Policy dates back to 1999.

Fiscal Accountability is one of the primary CAO Goals and Objectives, and the Executive Management Team has committed to support Finance in effecting some significant change in the way employee expense reimbursements occur.

Finance is preparing a new **HRM Employment Expense Reimbursement Policy** (combining Local and Out of Town and adding Entertainment Expense section) which will be completed by September 30th for circulation at the October SMT meeting. Pending SMT and EMT review and approval, implementation could occur in October.

Specifically, the changes that will be implemented and the timelines are described in the table below:

Recommendation	Response	Timeline
Consolidate Local and Out of Town Travel Policies	Local, and Out of Town will be consolidated, with a section added to address "Entertainment Expenses".	Sept. 30/06 Draft Policy
Out of Town Travel Claims must be submitted even when travel is paid by a 3 rd party, or even when charges are paid directly through HRM's operating budget.	This will be implemented in the new policy. Directors will be required to approve all Out of Town Travel and will be accountable to ensure employees file claims in this situation. DCAO's must approve Out of Town Travel for Directors. CAO will approve for DCAOs.	Oct. 31/06 Implementation
Travel advances should not be issued for groups, should be limited to 2 weeks in advance of travel.	New policy will reflect this recommendation.	Sept. 30/06 Draft Policy
Travel advances must be settled within 2 months of travel, and if not settled should be collected through payroll deduction.	Travel advances will need Director, or DCAO approval, and the Director or DCAO is responsible for ensuring the employee settles the travel advance within 2 months. Finance will create a bring forward system to identify advances issued and not settled. Finance will initiate recovery through payroll deduction for the pay period immediately following the due date for the settlement, if the settlement has not occurred.	Sept. 30/06 Draft Policy Oct. 31/06 Implementation

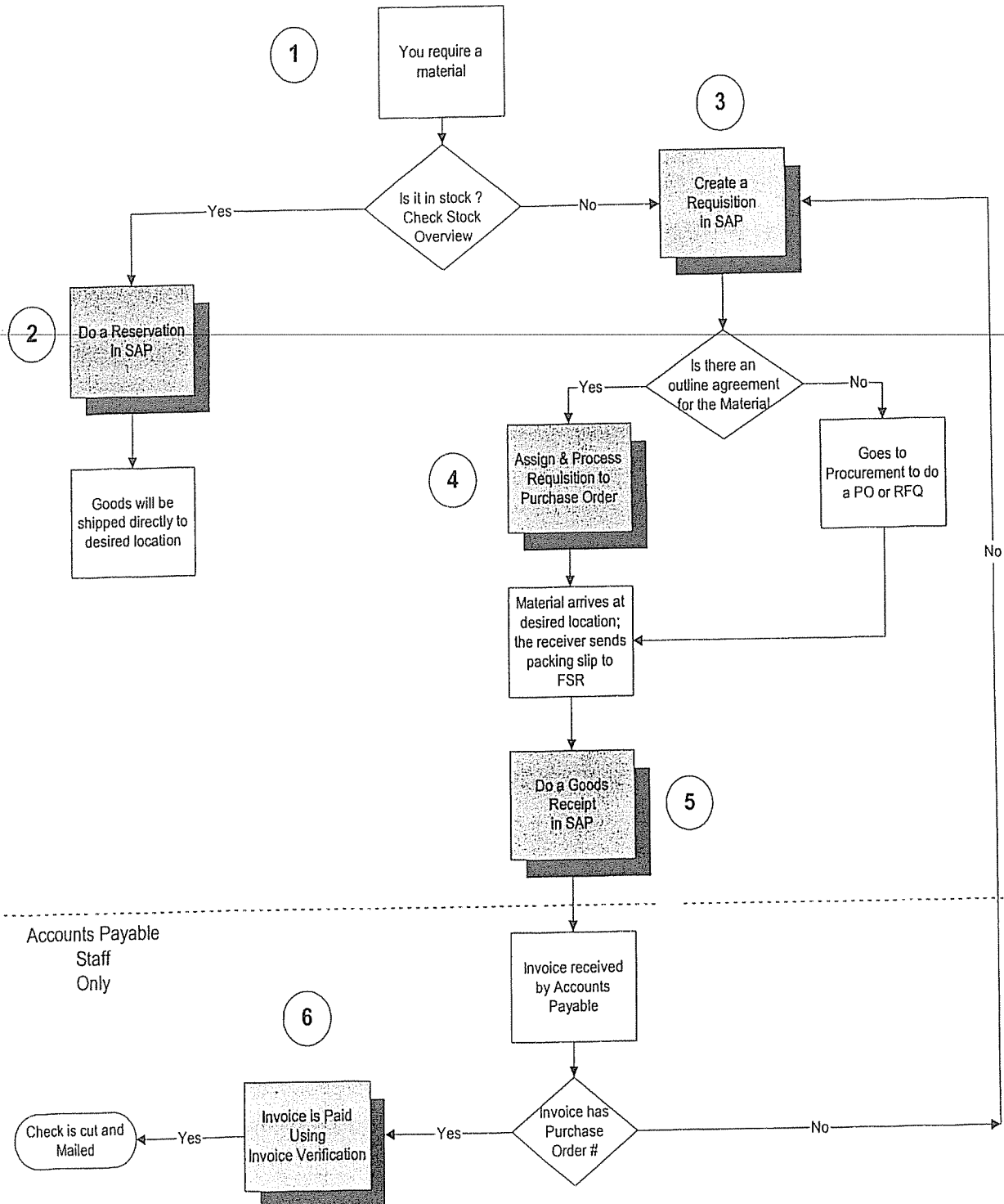
<p>HRM Procurement Cards are not to be used for Travel. Travel expenses must be submitted via travel expense claim.</p>	<p>Finance has communicated this issue to HRM Directors. Two possible options to address this problem:</p> <ul style="list-style-type: none"> a) Blocking all restaurant and hotel “sic” codes rendering the cards useless for such purchases. b) Initiating a “Travel Card” program, in addition to the Purchasing Card program. <p>Until this problem is addressed, Finance will provide a report to the Director of each Business Unit on a monthly basis, identifying employees who are non-compliant. Directors are accountable to follow up with their employees.</p> <p><i>We are currently going through an RFP process for Procurement Cards. Implementation of the new technology and possibly new cards, will require staff education and training, and policy compliance issues will be addressed as part of this. RFP award report to Council will occur in late October or early November.</i></p>	<p>Nov. 15/2006</p>
<p>Alcohol purchases are not permitted under any conditions on HRM Procurement Cards.</p>	<p>The Employment Expense section of the new HRM Employment Expense Reimbursement Policy will identify some specific (rare) circumstances where alcohol purchases will be permitted and will provide guidelines. Such purchases must be reported on expense claims. All non-compliance with this policy will be reported to the business unit Director or DCAO.</p>	<p>Sept. 30/06 Draft Policy</p> <p>Oct. 31/06 Implementation</p>
<p>The Purchasing Card Policy and Procedures Guidebook should be updated.</p>	<p>The policy will be updated to reflect:</p> <ul style="list-style-type: none"> a) cards must not be used for the expenses of another employee. b) requests for VISA must be written and provide substantiation re: operational requirement c) gas purchases for rental cars should include a copy of the rental agreement with the VISA statement and receipt. d) all managerial signatories must print their name under the signature block. e) employee signing authority forms must be completed by all managers delegated authority for signing VISA statements. 	<p>Sept. 30/06 Revised Policy & Communications to Business Units</p>

Enhanced enforcement of Purchasing Card Policy and Procedures.	Each business unit Director will receive a monthly report indicating which employees were non-compliant with policy, and how they were non-compliant. Finance/Management will issue a written warning to employees who fail to provide receipts on three or more occasions within a 6 month period. A subsequent offence will result in revocation of the employee's VISA.	Sept. 30/06 Revised Process & Communication to Business Units
Comprehensive Review of monthly vehicle allowance	Finance will support this review, which will be led by the Business Systems Control Group and Human Resources.	TBD with BSCG
HRM release a policy that expressly prohibits the use of HRM assets to pay for staff meals.	Notwithstanding any clauses with respect to "meals" in collective agreements, the new Employment Expense Reimbursement Policy should define the specific conditions where meal purchases are permissible. For example, if employees are required to work at the EMO Centre during a disaster, are required to assemble there quickly, and are expected to work in excess of a certain number of hours. There are several scenarios that need consideration. The employee recognition policy must also be amended to reflect that staff meals are not permitted.	Sept. 30/06 Draft Policy Oct. 31/06 Implementation
The Purchasing Card Policy should be amended to specify what catering and small dining is, and who can authorize and purchase these services.	This amendment to the Purchasing Card Policy can be effected, however may require longer as some research and consultation with business units will be required.	Oct. 31/06
Employees in receipt of a monthly vehicle allowance be advised that use of taxi for local travel is not reimbursable.	This will be incorporated with the new Employment Expense Reimbursement Policy.	Sept. 30/06 Draft Policy Oct. 31/06 Implementation

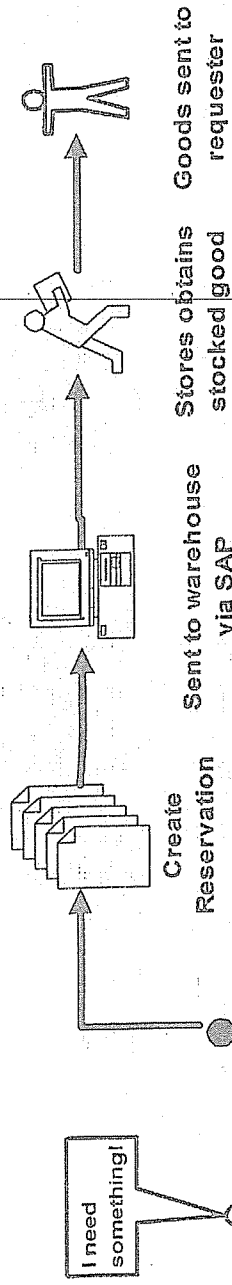
To improve transparency and accountability, Finance will be enforcing correct use of general ledger accounts. For example, travel expenses must be charged to a travel account, and not to other general ledger accounts.

Details

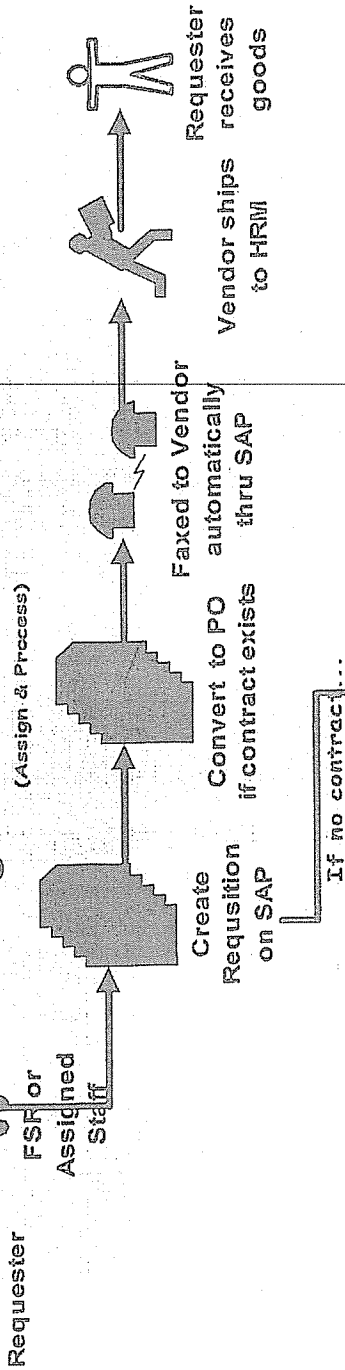
Business Process for ordering Goods & Services



For goods we stock at HRM:



For goods we do not stock but have a contract for:



Goods we do NOT stock and have NO contract for:

