



TO: Chair and Members of the Audit & Finance Standing Committee
FROM: Larry E. Munroe FCA, Auditor General, Halifax Regional Municipality
DATE: November 20, 2013
SUBJECT: Follow-up to HRM Payroll System – A Performance (Process) Review

On September 18, 2013 the Office of the Auditor General (OAG) presented HRM Payroll System – A Performance (Process) Review to the Audit & Finance Standing Committee. At that time and subsequently, the OAG has been asked to summarize possible savings which could be realized through the implementation of the report's recommendations.

While the report gave indications of the level of absolute savings as well as efficiency savings which are in theory achievable through implementation of the recommendations, the timing of the implementation was left to the administration.

The mandate of the OAG is to provide Regional Council with advice and recommendations to assist with quality of stewardship as well as value for money. Therefore, possibilities for efficiencies of any type are brought forward for review and consideration by Regional Council and Management.

The savings to be realized are a combination of three elements. The amounts suggested are approximations (for example the amounts resulting from a reduction in errors, generally thought by the industry to be in the order of 0.5% - 2.4% of payroll) but are thought to be reasonable.

Based upon the findings presented in the report and further discussions with the Manager of HRM Payroll Services, the OAG estimates, after full implementation, HRM could conservatively achieve yearly the following savings:

Absolute Budgetary Savings	\$1.0 million
Operational Efficiencies	\$1.0 - \$2.0 million
Reduction in errors	\$1.3 - \$3.0 million

It is very important for the committee to understand, while the savings which are possible appear significant, the context of the savings must be kept in mind and a number of points are relevant.

- A significant amount of the possible savings are related to what is generally understood by the 'industry' as the costs resulting from errors and related omissions which are generally thought to be present in a system which is for the most part manually based. The OAG acknowledges, the purpose of our report was not to exactly quantify what efficiency losses HRM was experiencing with the present system as the significant time needed would only serve to add some additional level of precision to what essentially everyone agrees is a significant cost.
- As suggested, not all of the savings can lead to direct budgetary savings as they represent additional time available by staff and managers to carry out other day to day operational functions. As this additional time will be spread over a large number of staff and business units, the ability to eliminate positions through attrition or reassignment will present a challenge for management.

To better understand the constraints HRM is facing with moving the noted recommendations forward, the OAG held discussions with Finance, Information, Communications and Technology management. The OAG understands the administration has a limited amount of resources available at this time to deal with all of the Information Technology matters which are before HRM. This follow up memorandum is prepared to indicate what level of savings might be possible and the cost of further delay. The follow up is also prepared in the spirit of indicating how critical the SAP system is to HRM's success and the very significant costs to the organization which can result from not keeping the system up to date. These comments are provided and supported by the following:

1. During discussions, the OAG was made aware the current SAP implementation, now supported through the Province of Nova Scotia, must be upgraded from the installed version (ECC6) to the current release version before enhancements, such as the Payroll system, can be implemented. The OAG was advised, the current state of SAP is limiting progress on payroll enhancements as well as at least two other SAP projects deemed as high priority. The OAG was also advised, this migration to the latest SAP software release will likely not be completed until Fall, 2014, likely pushing SAP enhancements to payroll processing to the 2015/16 budget year.
2. An exercise in process improvement must be undertaken to better understand the manual payroll processes deployed throughout HRM prior to any enhanced payroll automation. Within the 2014/15 proposed IT projects, FICT has ear-marked funds to commence this exercise.
3. Through discussions, the OAG was advised, it is the initial view of management, the changes to the systems and software will likely require the services of an outside agency. The OAG therefore would see payroll improvements as a question of timing with savings to be realized as soon as implementation is complete. In other words, even with the passage of time, it would be the intention of HRM to hire outside expertise. If this is the case, the implementation costs to HRM are consistent, it is the efficiency savings which will be lost with the passage of time.

RECOMMENDATION

The OAG would suggest further delaying enhancements to the HRM payroll system will cost the organization in both budgetary and efficiency savings. The OAG would recommend Finance and Audit Committee as part of the upcoming budget preparation engage with Management to discuss the extent to which savings are being postponed due to the previous failure to maintain the SAP system to the most current release.

Also, discussions should take place as to whether this upgrade is critical to other corporate priorities and discuss possibilities for a critical needs approach to the SAP upgrade.