

AUDITOR GENERAL

Halifax Regional Municipality



Audit & Finance Standing Committee

Review of Expenses: Mayors,
Councillors and Senior Management 2012-2013©

December 20, 2013

Objective

- The main objective of this review was compliance in nature. The focus was to verify adherence to the Employment Expense Reimbursement Policy, Purchasing Card Policy or applicable policy in place at the time of the expense. Based on the fieldwork completed by the OAG, conclusions were reached regarding compliance, by the Mayors, Councillors and senior management.

Type of Review

The OAG typically conducts two types of reviews:

- Compliance – reviews compliance to policies and procedures in place during the review period
- Value-for-Money – reviews efficiency, effectiveness and economies of a program, business unit, etc.
- This review was a compliance review and focused on compliance with policies in place during the review period.
- The OAG used a sampling methodology to test a number of transactions rather than reviewing 100% of the expenses.
- In a compliance review, all exceptions to the policies are reported.

Scope

- The review included both former and current Mayors, Councillors and senior managers who had incurred expenses between April 1, 2012 and March 31, 2013.
- The review also included all purchasing card transactions made by assistants to any of the Mayors, Councillors and senior managers who hold or held purchasing cards and made purchases during the period noted above.

Scope - Continued

- For the purposes of this review, senior managers refers to the Chief Administrative Officer (CAO), Deputy Chief Administrative Officer (DCAO) and Directors of the following business units:
 - Human Resources
 - Legal & Risk Management
 - Finance, Information, Communications & Technology
 - Government Relations & External Affairs
 - Metro Transit
 - Planning & Infrastructure
 - Transportation and Public Works
 - Community & Recreation
 - Fire and Emergency Services (HRFE) - Fire Chief

Scope - Continued

- The senior managers of the largest HRM organizations overseen by agencies, boards and commissions (ABCs) were also included in the review – Halifax Regional Police (HRP) - Police Chief, Halifax Public Libraries (HPL) - CEO and Halifax Regional Water Commission (HRWC) - General Manager.

Consistency of Policies among HRM and its ABCs

- The current HRM and HPL Employment Expense Reimbursement Policies have been in place since August 1, 2007.
- There appears, however, to be no indication HRM or HPL reviews their reimbursement rates on an annual basis.
- HPL follows the HRM policy, while HRWC has their own. HRWC's reimbursement rates are significantly higher than HRM's and HPL's.
- In the case of HRWC, there is no policy support for local meal reimbursements. The policy in place is specifically a travel policy. Although there is no provision/ allowance in the policy for local meals, during our review we noted a number of instances where meals were claimed.

EXHIBIT 1 - Comparison of Reimbursement Rates in Effect during the Review Period as provided to the OAG (Unaudited)

	HRM / HPL*		HRWC **		Province of NS *		Allowable under the Income Tax Act ***		UNSM*	
Breakfast	\$ 13.00		\$ 13.70		\$ 6.00		\$ 17.00		\$ 15.35	
Lunch	\$ 15.00		\$ 13.15		\$ 12.00		\$ 17.00		\$ 14.60	
Dinner	\$ 27.00		\$ 37.40		\$ 20.00		\$ 17.00		\$ 40.30	
	\$ 55.00		\$ 64.25		\$ 38.00		\$ 51.00		\$ 70.25	
Incidentals	\$ 10.00		\$ 17.30		\$ 5.00		N/A		\$ 17.30	
	<u>\$ 65.00</u>		<u>\$ 81.55</u>		<u>\$ 43.00</u>		<u>\$ 51.00</u>		<u>\$ 87.55</u>	
Mileage:	\$ 0.46	< 16k km	\$ 0.52	< 5k km	0.4287	< 16k km	\$ 0.505	Per km	\$ 0.46	Per km
	\$ 0.42	16k - 24k km	\$ 0.46	>5k km	0.3783	> 16k km	(Nova Scotia)			
	\$ 0.34	> 24k km								

* Meal reimbursements include taxes and gratuities.

** Meal reimbursements include taxes. Gratuities are included as part of incidental reimbursements.

*** Maximum allowable claims for taxpayers when claiming these expenses on their personal income tax returns.

- Applicable for 2012

- \$17/meal to a maximum of \$51/day

Forms for Expense Reimbursement

- In reviewing these forms, the OAG noted the following concerns:
 - The form currently used at HRM for local travel does not indicate where the claimant is travelling from. Since the form does not indicate where the claimant is travelling from, it is not possible to determine the reasonableness of claims.
 - The current forms titles indicate they are for local travel or out-of-town travel; however, there is a space to claim 'other expenses' or 'miscellaneous expenses' respectively. As a result, these forms are being used to claim items not related to travel.
 - Cheque requests for direct reimbursement are also used by some claimants for reimbursement of expenses which are not travel related. Although these expenses were always supported by receipts, in these cases, the reason for the expense was not always included on the form, so it was not possible to determine if the expense was appropriate or reasonable.
 - Also, the OAG questions whether HST input tax credits are always being claimed for items when cheque requests are used. Three cheque requests were reviewed in detail. One had HST input tax credits claimed and the other two did not. Payment processing is responsible for coding HST.
 - The HRM Travel Grid is not up-to-date. It includes closed HRM locations (eg. Northcliffe Recreation) and does not include others (eg. Ragged Lake Transit Centre).

Expense Approvals

- Who has the supervisory approval for the Mayor and Councillors?
 - Should there be one?
- Who is responsible for pre-approving the Mayor and Councillors' out-of-town travel prior to occurrence?
 - Should this happen?
- Who makes the decision whether it is appropriate or not for these individuals to attend a specific conference or out-of-town event?

There is no documented signing authority for these expenses.

- The current Mayor has the CAO approve his expenses while the previous Mayor had the Mayor's Office Manager approve his expenses.
- Councillors' expenses are approved by the Councillor Support Office Manager.
- Unfortunately, these approvals do not constitute supervisory approval of the expenses, rather they are an administrative approval only. These managers are responsible for the budgets for the accounts being charged; however, strictly speaking they are not in an authorized position to disallow a conference or out-of-town travel.

Approvals of Senior Management Expenses

- HRM has an 'Approval for Overnight and Out of Province Travel' form which is required to be completed prior to any overnight and/or out of province travel documenting the reason for the trip, the expected budget and approval by the employee's manager, director and CAO or DCAO (dependent on reporting relationship). This form does not indicate who should be signing the form if it is the CAO traveling.
- For HPL, the Director of Corporate Services (previously Director of Finance) approves local travel of the CEO; the Chair of the Board approves out-of-town travel. Since the Director of Corporate Services reports to the CEO, this local travel approval would not constitute supervisory approval. In the case of out-of-town travel, the Chair of the Board provides verbal pre-approval. There is no form in place to document the approval of out-of-town travel for the CEO.

Senior Management Approvals - Continued

- In the case of HRWC, expense reports for the General Manager reviewed by the OAG were approved by the Chair of the Board and expenses incurred by the General Manager using a purchasing card (also includes travel), were approved by the Director of Finance and Customer Care/CFO.
- Approval by the Director of Finance and Customer Care/CFO does not constitute supervisory approval.
- The Director of Finance and Customer Care/CFO has indicated in July 2013 she requested the Chair of the Board also approve the purchasing card expenses of the General Manager (effective from the June 2013 statement).
- The General Manager keeps an Executive Committee of the Board (including the Chair and Vice Chair) informed of his up-coming initiatives or trips. There is no formal documented pre-approval process in place.

Instances of Non-Compliance

- Considering our sample consisted of 48 reimbursements to mayors and councillors, 50 reimbursements to senior managers and 53 procurement card transactions, the number of instances of non-compliance identified is small.
 - A meal for staff for employee recognition during an out-of-town conference for HRWC employees included alcohol (disallowed by the policy) and the total per person was well above the regular maximum dinner reimbursement for HRWC or for HRM. Also, the gratuity paid was 20% which is in excess of the 15% allowed by the policy.
 - HRWC General Manager was reimbursed for food expenses for a meal hosted by him at his residence to recognize an organizational accomplishment. Expenses for spouses are not eligible for reimbursement.
 - The OAG noted four instances within the HRM and HPL samples where conference fees were not included on the form in the column 'Charged Direct'. The reimbursement report therefore does not identify the full cost of the travel .

Instances of Non-Compliance - Continued

- One instance was noted where alcohol was charged to a procurement card in error and was not recovered. The amount was small.
- One Senior Manager has claimed local meals when travelling from their office to City Hall for Regional Council meetings or Committee meetings.
- One instance was identified where a Senior Manager authorized his own local travel expense claim.
- Eight instances were noted where the claim was submitted more than two months after the expense was incurred.

Instances of Non-Compliance - Continued

- The OAG identified several instances where the reason for the expense was not included on the form so it was not possible to determine if the expense was appropriate or reasonable. In some cases, the expense was claimed through a cheque request therefore, by design of the form, there was no reason given for the purchase.
- HRM has established a travel grid which identifies HRM properties and the distance between to ensure consistency in the distance being claimed. Sometimes the distance being claimed was consistent with the grid, other times it was not.
- In thirteen instances, itineraries were not included with the expense claim as required by the policy for out-of-town travel.

Other Items

- For purchases greater than \$1,000, a request to increase the card limit is approved by the supervisor and then submitted to Procurement. Documentation for increasing the limit and then decreasing the limit after the purchase takes place is not maintained so the OAG was not able to see documented evidence approval was received to increase the card limit to make a specific purchase.

Other Items - Continued

- There was some evidence of missing receipts identified when reviewing purchasing card transactions. The OAG did note Procurement identifies all cases of missing receipts for review by the Director of Finance and Information, Communications & Technology/CFO.
- The former CEO of HPL travelled to Helsinki, Finland for the International Federation of Library Associations and Institutions (IFLA) conference but only some of the expenses were covered by HPL. The OAG understands the airfare from Toronto to Helsinki (return) was covered by the CEO personally and the conference registration fees were waived because the CEO was a presenter at the conference. All other costs were covered by HPL including hotel charges of over \$300 (average) per night for seven nights. The OAG questions how the amount of the expenses to be paid by taxpayers are determined in this type of situation.

Other Items - Continued

- The former CEO of HPL also travelled to Barcelona, Spain during the period reviewed for the Metropolitan Libraries conference. The OAG questions the reasonableness of two international trips in one year at some expense to HRM taxpayers. There was no documentation provided supporting the business case for why attendance was required.

Key Recommendations

- The OAG recommends HRM Administration implement a methodology for setting of reimbursement rates as well as a review of the expense policy on a regular basis. The review should ensure policy guidance is referenced (eg. travel grid, pre-approval form, etc.). The review should include comparisons across HRM entities and ABCs to ensure all ABCs adopt HRM's policies. (1.1.1)

Key Recommendations (continued)

- The OAG recommends HRM Administration review the various expense-related reimbursement forms to ensure they meet required needs. Forms and policies in use should be communicated to all employees to ensure they are aware of the correct forms to use and the appropriate distance to be claiming. Form titles should be updated to indicate the full purpose, including non-travel related items, or a separate form should be implemented for these items with an area to indicate the reason for the expense. This review should also include an update of the HRM Travel Grid. (1.2.1)
- The OAG recommends Regional Council review the approvals required for Mayor, Councillor and senior management expenses with a focus on implementing the leading practice of a supervisory or 'one-up' approval mechanism to strengthen internal controls. The OAG suggests approvals by Committee, Audit and Finance Committee Chair or Vice-Chair or Mayor (in the case of the CAO) would be appropriate. (2.0.1)

Key Recommendations (continued)

- In the interim, until a review of the expense policy is completed (as suggested in Recommendation 1.1.1), the OAG recommends HPL document approvals for out-of-town travel requests and implement approval of all CEO expenses by the Chair of the Board to ensure supervisory or 'one-up' approval. (2.0.2)
- The OAG recommends HRWC ensure pre-approval for out-of-town travel is documented. (2.0.3)

Key Recommendations (continued)

- The OAG recommends, once changes are made to the expense reimbursement policy and applicable forms, HRM Administration ensure the policy and all applicable forms are communicated to all business units and ABCs for consistent application. Business units should be reminded to include all costs on the reimbursement form to ensure the full cost of the expense is identified. The OAG would also recommend requiring the inclusion of a budget (based on the 'Approval for Overnight and Out of Province Travel' form) comparison to actual costs for accountability purposes. (3.0.1)
- The OAG recommends HRM Administration and Regional Council formalize circumstances where Councillors can claim mileage reimbursement when travelling from their place of residence. (4.0.1)

Key Recommendations (continued)

- The OAG recommends HRM and its' ABCs set in policy what are reasonable/allowable charges for hotels, rental cars, and other travel related expenses not covered by the current policy. (4.0.2)
- The OAG recommends HRM Administration and ABCs add a requirement to the policies to include a business case to support out-of-province travel. Also, if some costs are to be paid personally or by another party, this should be noted on the reimbursement form. The reimbursement form should provide a complete audit trail of all costs and other required information. (4.0.3)

Management Response

RE: Review of Expenses: Mayors, Councillors and Senior Management 2012-2013

Dear Mr. Munroe:

I have reviewed the draft report *Review of Expenses: Mayors, Councillors and Senior Management 2012-2013*, submitted to me on December 2, 2013 by your office. I was very pleased to note in the report that “there were no obvious abuses of the Employment Reimbursement Policy or the Purchasing Card Policy at HRM by the Mayors, Councillors and senior management, during the period of review”. It is encouraging to see this level of responsibility in HRM. In an effort to further strengthen this position, we will work to further refine policies and management practices related to the process of claiming expenses. The recommendations specific to the Halifax Regional Water Commission and Halifax Regional Libraries will be aligned where appropriate with the work plan developed in response to your previous report on Agencies, Boards, and Commissions.

I am in general agreement with its content and the direction proposed. In keeping with our standard practice, HRM Administration will take your recommendations under consideration and develop a plan to respond to the issues identified in the report.

Sincerely,

HALIFAX REGIONAL MUNICIPALITY

Original Signed

Richard Butts
Chief Administrative Officer