
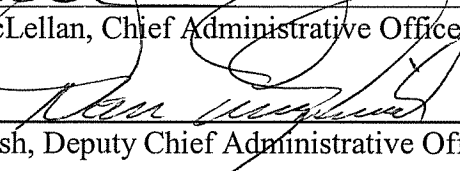


Halifax Regional Council
May 17, 2005

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


George McLellan, Chief Administrative Officer


Dan English, Deputy Chief Administrative Officer

DATE: May 10, 2005

SUBJECT: Electronic Banking Services and Review of Signing Authorities

ORIGIN

The desire by staff to move forward with new technologies to enhance banking and cash management security and to make available these technologies to assist business units and HRM facilities to increase the effectiveness of service delivery. These electronic banking services will also facilitate securing discounts and more favorable payment terms from HRM vendors. It is also an opportune time to review existing signing authorities for the HRM including facilities managed under operating agreements as well as Associations, Boards and Commissions (ABC's).

RECOMMENDATION

It is recommended that:

- 1) Council direct staff to move forward with the electronic authorization of bank transfers as outlined in this report.
- 2) Council approve the signing authorities of the Dartmouth Sportsplex as per Schedule A attached to this report as part of the initial project as outlined in the section on ABC's of this report.

BACKGROUND

The technology available through the Canadian banking system has been changing over the past number of years. Electronic methods of service delivery have matured. While some changes are optional in nature others are being mandated by the Canadian Payments Association. (The Canadian Payment Association is a not-for-profit association created in 1980 by an Act of Parliament. Its mandate is to establish and operate national systems for clearing and settlement of payments, etc.). Staff wish to embrace those new products that can have an immediate positive impact on operations and increase security over the receipt and disbursement of funds as well as prepare for those changes that will be required in the future.

A more troubling aspect of general advances in technology is the increased sophistication of cheque fraud. The internet provides for a virtual storehouse of the tools of this trade. Readily available copying and scanning technologies can make very high quality reproductions. Staff were recently advised by Police in Ontario of an attempt to pass an altered HRM cheque. This attempt was not successful.

By adopting some of the new technologies available through the banking system the traditional role and functionality of HRM's bank signing authorities needs to be refreshed. This also provides the opportunity to review bank signing authorities in the HRM Associations, Boards and Commissions (ABC's) as well as HRM facilities managed under agreements. In many cases signing authorities were put in place at amalgamation in 1996 based on the continuation of policies and practices that had been previously established. A general review of signing authorities is therefore appropriate at this time to confirm that sufficient controls are in place to safeguard the public trust.

Staff discussed these issues at a recent meeting of the Audit Committee. Those members present concurred with the need to move forward on these issues.

DISCUSSION

Staff have had discussions with the Royal Bank of Canada, the banker for the HRM, with regards to alternative technologies and products available to meet current needs as well as the challenges that lay ahead. Broadly, there are two areas under consideration. One pertains to the disbursement of funds to pay suppliers, contractors, etc. Secure electronic payment methods can reduce the overall risk of cheque fraud while enhancing the ability of HRM to negotiate contract terms and early payment discounts. This can be mutually beneficial to both HRM and its vendors. Staff are optimistic that the opportunity this creates for more predictable cash flows to vendors, arrangements with vendors and early payment discounts should mitigate the cost to HRM of the services discussed in this report.

An additional part of this technology, referred to as Disbursement Auditor by the HRM banker, would include a “positive pay” security feature that would have an electronic file of all cheques produced by HRM sent to the HRM banker. Cheques submitted for payment would be checked against this file prior to being processed. In light of the attempted breach in security referenced above staff wish to move swiftly on this aspect.

The other area pertains to information flows between HRM and the ABC's to the HRM's banker. This includes information on bank account balances, deposit details, cheques cleared, direction to execute Pre-Authorized Payments for receipt of property taxes and other revenues, direct deposits of paycheques for HRM staff and transfer of funds between bank accounts. The HRM's banker is offering an on-line electronic product platform that will address all of the functionality outlined above as well as new functionality such as cheque imaging. The Canadian Payments Association has mandated that by the end of 2006 physical cheques will no longer be moved between financial institutions in Canada for settlement but rather this processing will shift to an image based system. Thereafter, the only ability to view a processed cheque will be through electronic means.

The product platform offered by the HRM banker allows for a modular approach so that functions currently being performed with older bank technology can be migrated over time without disrupting current operations. This platform also allows for the extension of the functionality outlined above to the ABC's within the HRM consolidated bank accounts. This product has robust security features that include the ability to create a hierarchy of delegated signing authority based on bank account and transaction amount. Separation of authorization functions from initiation of transactions provides for good internal control when exercising the public trust.

HRM Operations

Some of the functionality of the on-line products discussed above challenge the traditional role of HRM bank signing officers. Presently the HRM bank signing officers are limited to the Mayor, Deputy Mayor, Deputy Chief Administrative Officer, Director of Financial Services and Treasurer:

- Cheques require the signature of one elected and one appointed official. Electronic and mechanical means of applying these signatures are authorized.
- Only one signing officer is required to authorize transfers between HRM bank accounts or for the transfer of approved appropriations to the ABC's.
- The Treasurer may make funds transfers for investment purposes to the HRM custodian in accordance with the Investment Policy.

Staff have followed the cheque authorization protocol in those infrequent instances when funds are transferred directly from an HRM bank account to the bank account of an external entity.

Staff are requesting that Council approve a change in the bank signing authorities to allow for the electronic transfer of funds to both HRM related entities and external entities. This change is necessary to allow staff to initiate instructions to the HRM banker to make electronic transfers of funds as outlined in this report. It must be stressed that the Procurement Policy as approved by Council that sets out authorization limits would still be respected. The only difference would be the “medium of exchange” so to speak whereby a cheque would be replaced by an electronic bank to bank transfer and in some cases a letter of direction to the HRM banker would be replaced by an electronic transmission.

HRM Payroll is another area where direct bank transfers from the HRM bank account to the bank accounts of employees are required. All such payments are made in accordance with the terms of collective agreements approved by Council. While there are 26 regular payroll transfers in a year there are also approximately 15 to 20 adjustments per month. All employee compensation adjustments and payroll deduction remittances requiring transfers of funds from the HRM bank account would be approved by senior staff in the Human Resources Services Business Unit.

Centralized control and monitoring of banking transactions would flow through HRM Treasury / Cash Management staff.

Agencies, Boards and Commissions (ABC's)

The ABC's that operate within the HRM consolidated banking structure enjoy the benefits of cost savings from being part of the HRM banking contract as well as enjoying the HRM investment rates of return.

New on-line reporting functionality offered through the HRM banker would allow the ABC's within the HRM consolidated banking structure to view their bank account transactions in a more timely manner. Other functionality would enable better customer service through more effective administration of pre-authorized payment arrangements.

Staff of the Dartmouth Sportsplex (Sportsplex) have indicated a desire to serve as the pilot project for the rollout of this product to address an immediate need to replace some older bank products and to enhance service to their customers. As part of the pilot project, the Sportsplex staff have submitted their signing officers as approved by their Board in the document attached as Schedule A for the approval of Council. Sportsplex staff report that there are sufficient internal controls in place to safeguard the public trust delegated by Council. Sportsplex staff also report that their Financial Statements and operations have been reviewed by external auditors. The use of the new technologies offered under the pilot project will enhance their Pre-Authorized Payment capability as well as increase customer service.

HRM Staff will use the occasion of the adoption of these new technologies by the other ABC's to report to Council on their respective signing authorities.

BUDGET IMPLICATIONS

Cost Summary

Service	Current Cost	Anticipated Cost With New Technologies	Estimated Incremental Annual Costs Year 1**	Estimated Incremental Annual Costs Year 2***
RBC Express (Bank Account Balance & Reporting)	\$603	\$600	N/A	N/A
Cheque Document Imaging	New Service (will be mandatory by end of 2006)	\$0.055 per item plus \$25 monthly fee for first 5 accounts plus \$25 per month for CD Creation	\$2,163**	\$2,115***
Disbursement Auditor	New Service	\$0.50 per cheque issued	\$14,210**	\$13,775***
A/P Link (payment for vendor invoices electronically)	New Service (replaces estimated direct cost of \$0.67 for cheque stock, envelope and stamp)*	\$0.90 per electronic payment transmission	\$3,123**	\$3,324***
Set-up Costs		\$9,000	\$9,000	N/A
Estimated Incremental Total Costs			\$28,497	\$19,214

* Staff estimate the full processing cost to issue a cheque to be between \$26 and \$36. While it is anticipated that there will be savings in staff time through the use of electronic payments, these

staff would be re-assigned to other necessary functions.

** Staff estimate that of the 42,000 cheques issued by HRM annually, the 13,000 which are internal and an assumed 2 % (580) vendor payments can be made electronically in year 1. As payments are switched from paper cheque to electronic payment there will be net savings in these bank fees of \$0.325 per payment.

*** Assumes 5% (1,450) of external vendor payments are made electronically in Year 2.

Staff are optimistic that the incremental costs of these Electronic Banking Services can be mitigated by an enhanced ability to gain early payment discounts and other arrangements with vendors. Preliminary discussions with Procurement staff have already identified one major supplier who is prepared to accept a discount for early payment.

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 the withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

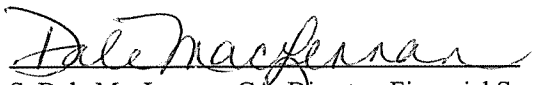
- 1) Council could direct staff to retain the old Royal Bank of Canada technology for as long as possible. However, in the case of the Dartmouth Sportsplex the existing product is no longer being supported and requires an immediate upgrade.

ATTACHMENTS

Schedule A - Dartmouth Sportsplex Signing Authorities

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.

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Report Approved by: 
 S. Dale MacLennan, CA, Director, Financial Services, 490-6308

Schedule A

Dartmouth Sportsplex

Bank Account Signing Officers as Approved by the Board:

General Manager
Accounting Director
Athletic Director
Promotions Co-Ordinator

March 16, 2005
Dated