
AUDITOR GENERAL

Halifax Regional Municipality

A Performance Review of the Management of Small Equipment – Halifax Regional Municipality[©]

July 2016

AUDITOR GENERAL

Halifax Regional Municipality

A Performance Review of the Management of Small Equipment – Halifax Regional Municipality®

July 2016

Table of Contents

Preamble	3
Objectives	3
Scope	4
Methodology	5
Executive Summary	6
Summary of Recommendations	8
1.0 Risks Associated with Small Equipment	11
2.0 Lack of Policies and Procedures for the Management of Small Equipment	13
2.1 Limited Definition of What is Classified as Small Equipment at HRM.....	14
2.2 Acquisition Decision Responsibility and Criteria	15
2.3 HRM Tangible Capital Asset Policy	17
2.4 Processes to be Followed for the Ownership and Use of Small Equipment	19
2.5 Process to Dispose of Small Equipment	21
Appendix A: Management Response	23

Preamble

Halifax Regional Municipality (HRM) is the largest municipality in Nova Scotia, delivering a variety of programs and services to its taxpayers. As a result, HRM has multiple business units using many different types of small equipment. Because these assets generally are small in size, there is a higher risk of loss or misappropriation. Given the number of business units using small equipment, the dollar value of these assets on hand at any given time could be significant.

After discussions with various HRM staff during previous reviews completed by the Office of the Auditor General (OAG) and after a preliminary environmental scan, it became evident to the OAG there may be a lack of consistent definition and controls around small equipment at HRM. As a result, the OAG included a review of small equipment in the 2015/16 OAG Work Plan.

Objectives

To determine whether procedures and controls demonstrate effective management of HRM's small equipment.

In order to satisfy this objective, the OAG developed the following lines of enquiry:

1. To review if processes and/or procedures are currently in place for the acquisition and use of small equipment across HRM.
2. To evaluate if management processes (for example asset listings, physical access controls, etc.) are in place around small equipment to ensure effective operational service delivery.
3. To determine if appropriate criteria are in place across HRM to evaluate total cost of ownership¹ in decisions used to acquire and maintain small equipment.

¹ Total Cost of Ownership is a financial measure intended to determine the purchase price of an asset plus the costs associated with operations.

Scope

General ledger expense accounts were scanned related to small equipment acquisitions over a five year review period, from 2010/11 to 2014/15.

For the purpose of this review, the OAG excluded items in the following categories:

- Fleet vehicles
- Large, licensed equipment
- Hand tools (i.e. mechanic-owned tools, hammers, screw drivers, other disposable tools)
- Equipment fitted to vehicles
- Information Technology (IT) assets (i.e. printers, computers)
- Consumables (i.e. items used on a daily basis and not required to be maintained)

Processes related to small equipment were reviewed in the following entities:

- Halifax Regional Police
- Halifax Regional Fire & Emergency Services
- Halifax Transit
- Transportation and Public Works
- Operations Support
- Parks and Recreation
- Halifax Regional Water Commission

Entities out-of-scope due to assumed limited/no use of small equipment included:

- Chief Administrative Office
- Finance, Information, Communications & Technology
- Legal, Insurance & Risk Management
- Human Resources
- Planning & Development
- Other Agencies, Boards and Commissions

Methodology

Once the OAG determined there was no corporate-wide small equipment program, the OAG created a questionnaire which was sent to the directors of the entities within the identified scope as the initial step in gathering information around small equipment management. The questionnaire included the following queries:

- the business unit's definition of small equipment,
- how decisions are made to acquire small equipment,
- methods used in acquiring small equipment and
- how small equipment is tracked and maintained.

The OAG also scanned general ledger expense accounts (6701 – Equipment Purchased and 6702 – Small Tools) to assist in understanding the amount and types of small equipment purchased annually by HRM.

The OAG also scanned two additional general ledger expense accounts (6704 – Equipment Rental and 6705 – Repairs & Maintenance). The purpose of reviewing these accounts was to assist in determining, on an annual basis, the types and the cost of small equipment being rented by HRM business units.

Executive Summary

In simple terms, an asset can be defined as something an organization owns which has value. Assets can range from cash and accounts receivable to pieces of property and equipment. Organizations acquire assets (i.e. property) for a variety of reasons including, for example, use in the manufacturing of a product for sale or providing services to customers. In the public sector, the concept is similar. Assets are acquired by various levels of government to be used in delivering programs and services to the public. Property and equipment assets can range from bridges, roads and buildings to vehicles, chainsaws and lawn mowers. Since these assets have value, each organization will typically develop a management framework (including acquisition processes, controls and monitoring around safeguarding and storage, life cycle management and disposal) around the assets to protect the organization's investment. There are also standards for recording assets in the financial records of an organization which are generally based on a dollar value and useful life (how long it will last) of the asset.

At Halifax Regional Municipality (HRM), the Tangible Capital Asset (TCA) Policy defines which assets are to be capitalized and therefore recorded in the financial records as an asset. This policy specifies cost thresholds to make the policy practical, easy to administer as well as to assist in determining whether an asset should be capitalized or treated as a current year expense. Assets may be pooled in cases where there is a program to acquire or upgrade a group of similar assets. The threshold for small equipment is \$50,000 (individually or pooled)². The policy also specifies capitalized assets are to be tracked in an asset register³. Staff have indicated, "from an Accounting Perspective, the TCA Policy and the Asset Accounting Module of SAP we use to track our Assets is not designed to safe guard or track our small equipment. The TCA policy is a financial accounting policy designed to record and amortize the Tangible Capital Assets on the Consolidated Financial Statements. Items like Small Equipment would be recorded in the Asset Accounting Module as a "Pooled Asset" and as such we do not track individual pieces of equipment."

As is to be expected, HRM has many pieces of equipment which are under \$50,000 individually and may not have been acquired as part of a pool. In these cases, it appears small equipment items are expensed in the year they are purchased and there is no requirement for tracking in an asset register.

² Halifax Regional Municipality (HRM) Tangible Capital Asset Policy, Section 4.3.1.10

³ An asset register is a method used to keep track of assets owned by an organization.

HRM operations require business units use a variety of small equipment. These items are often small, easily movable and therefore, subject to the risk of misappropriation. The OAG contemplated the possible risks associated with these types of items in the HRM environment and concluded small equipment are likely to be associated with a high level of operational, financial, reputational or strategic risk.

Typically when organizations identify high-risk assets, a unique or specifically-designed control framework is established to protect the organization's investment in these assets. In the opinion of the OAG, for the proper management of small equipment, a number of components are instrumental in HRM mitigating these risks as well as achieving value for taxpayer funds. It is the view of the OAG, a properly developed framework would include, as a minimum, the following:

- A documented definition of small equipment
- A documented policy around the management of small equipment
- Decision criteria to be used in acquiring small equipment
- A documented strategy for determining the most suitable assets to satisfy HRM operational needs, including analysis around the total cost of ownership and when it is appropriate to apply this concept
- Consistent procedures and direction communicated to all staff
- Clear, concise asset management practices (asset listings, controls around access and storage, maintenance and disposal processes)
- Clarity of responsibility for budgeting and maintenance of small equipment.

Unfortunately, it is the view of the OAG, all of these are not present as part of a control framework for small equipment across HRM.

The OAG is of the belief a strong understanding of risk coupled with strong management practices over small equipment is instrumental in making certain proper processes are in place to ensure the effective management of small equipment across HRM.

Summary of Recommendations

- 1.0.1 The OAG recommends HRM Administration identify and document the key risks associated with small equipment at HRM. (Page 12)
- 1.0.2 The OAG recommends HRM Administration create an organization-wide small equipment program supported by policies and procedures to address the key risks identified as a result of the implementation of Recommendation 1.0.1. (Page 12)
- 2.1.1 The OAG recommends HRM Administration establish appropriate criteria to define and classify small equipment across HRM business units. (Page 14)
- 2.2.1 The OAG recommends HRM Administration review the current approach for responsibility over small equipment assets to improve the overall control and accountability with respect to acquisition and management of small equipment. (Page 17)
- 2.2.2 The OAG recommends HRM Administration establish consistent decision-making criteria across HRM, which incorporates total cost of ownership criteria, to assist staff in determining when and how to acquire small equipment. This recommendation is made within the context of cost – benefit of this approach given the asset being considered. (Page 17)
- 2.3.1 The OAG recommends HRM Administration perform a full-scale review of small equipment to identify all items owned by HRM, evaluate current organizational needs and adjust the small equipment inventories accordingly. (Page 19)
- 2.4.1 The OAG recommends HRM Administration develop a process to identify and report the amount spent annually on small equipment acquisitions as well as the annual repairs and maintenance of these items. (Page 21)
- 2.4.2 The OAG recommends HRM Administration instruct all business units to leverage the existing asset management systems currently available at HRM to effectively track small equipment assets. (Page 21)

- 2.5.1 The OAG recommends HRM Administration clearly communicate the acceptable methods for disposing of small equipment assets to ensure staff are advised of the current practices available across HRM. (Page 22)
- 2.5.2 The OAG recommends HRM Administration establish and document procedures around the disposal of small equipment assets to ensure the highest salvage value is received for the asset. (Page 22)

Detailed Findings and Recommendations

1.0 Risks Associated with Small Equipment

Halifax Regional Municipality (HRM) operations require business units use a variety of small equipment, for example cameras, televisions, lawn mowers, grass cutters, generators, etc. These items are often small, easily movable and subject to the risk of misappropriation or loss, as many of these items can also be used for personal reasons, or can easily be left behind at a worksite. The Office of the Auditor General (OAG) contemplated the possible risks associated with these types of items in the HRM environment and concluded small equipment are likely to be associated with a high level of operational, financial, reputational or strategic risk.

Other organizations have also identified small equipment as high-risk. For example, the State of Washington⁴ has a Capital Asset Inventory Records Policy in which ‘small and attractive’ assets are defined as “Assets that do not meet the state’s capitalization policy but that an agency considers particularly vulnerable to loss, thus subject to special property control.”

The State of Washington defines ‘small and attractive’ assets as “Assets that do not meet the state’s capitalization policy but that an agency considers particularly vulnerable to loss, thus subject to special property control.”

Typically, when organizations identify high-risk assets, a unique or specifically-designed control framework is established to protect the organization’s investment in these assets. This framework typically includes:

- A clear, concise definition to determine which assets are high-risk and therefore require more controls,
- Policies and procedures governing the management of these assets, including acquisition, use and disposal and
- Controls with respect to security of the assets.

Staff have indicated, in an Information Report presented to the Audit and Finance Standing Committee, Business Unit Directors are “Accountable for the effective risk management within their Business Units – this accountability cannot be delegated. Directors will provide assurance as to the effectiveness of the internal control environment.” There is no small equipment program at HRM and, to the knowledge of the OAG, the specific risk of misappropriation related to these assets has not yet been defined within the corporate risk

⁴ State of Washington, Capital Asset Inventory Records Policy, Small and Attractive Assets

framework. In addition to the risks noted above, without a corporate-wide program and effective asset management controls, the OAG is of the view the organization is likely unable to efficiently report on the small equipment assets it currently owns as well as effectively determine the small equipment assets required to meet operational requirements. Also, with multiple units available, it may not be noticed if an item has gone missing or may not be seen as an issue of priority because there are other similar items available for use.

Risks associated with misappropriated or misplaced assets include strategic (safety) risks as the organization, in the event of an emergency or adverse event, may not have the capability to quickly identify all assets owned and their specific locations. With respect to small equipment, not knowing the amount or physical location of an asset may have significant impact around the mitigation of such events. In support of this position, the OAG is pleased to note as a standard operating procedure, Halifax Regional Water Commission (HRWC) maintains a robust inventory and location listing of all assets currently owned in their emergency response plan. This inventory is updated on an annual basis and enables HRWC to identify all assets on hand in the event of an emergency and enhance response to such situations.

HRWC maintains a robust inventory and location listing of all assets currently owned in their emergency response plan to identify all assets on hand in the event of an emergency and enhance response to such situations.

Recommendations:

- 1.0.1 The OAG recommends HRM Administration identify and document the key risks associated with small equipment at HRM.
- 1.0.2 The OAG recommends HRM Administration create an organization-wide small equipment program supported by policies and procedures to address the key risks identified as a result of the implementation of Recommendation 1.0.1.

2.0 Lack of Policies and Procedures for the Management of Small Equipment

In the absence of an established framework, divisions or operating units within organizations may put processes in place on an ad hoc manner. Even though HRM has not assessed the risks around small equipment assets at the corporate level, the OAG still attempted to review particular processes or programs around small equipment management being used in various business units but was not able to find a consistently defined program.

The OAG believes, in order for small equipment to be effectively managed at HRM, policies and procedures should encompass the entire life cycle of the asset and include as a minimum:

- The processes to identify the need and acquire the asset
- The processes to be followed while the asset is in use and
- The process to dispose of the asset once it is no longer needed.

In the absence of an accepted control framework or corporate-wide program related to small equipment the OAG developed an ad hoc list of questions to act as a framework for evaluating the informal practices around managing small equipment:

- Is there a clear organization-wide definition of what constitutes small equipment? If there are variations between business units, do these variations appear to be reasonable?
- What controls are in place to manage small equipment?
- Does HRM have effective policies for assigning assets to staff who need them? Are there controls in place for management to identify if small equipment is missing or damaged?
- Is there an established process for staff to follow in the event of damage or loss of small equipment assets? If so, are all business units aware of the process?
- Are there any concerns with the organizational knowledge of where all small equipment assets are located and possible organizational duplication?
- Does HRM have organizational knowledge of the number and dollar magnitude of assets classified as small equipment?
- Is there a clear and well-documented process for the disposal of small equipment assets which will result in maximum recovery for the Municipality?
- Is HRM aware of, and document properly, problems with respect to missing or unusable equipment? Does HRM have appropriate controls in place to eliminate or mitigate the risk; for example are assets held in a secure location and/or is access to the assets restricted?

Using the above framework as a basis for initial enquiries, the OAG developed a questionnaire to learn more about the management of small equipment and provide useful recommendations to Management to improve controls. Over the next several sections of this report, the OAG will outline the results of the small equipment questionnaire in an attempt to identify possible process deficiencies around the management of small equipment and assist HRM Administration in improving the quality of stewardship over small equipment assets.

2.1 Limited Definition of What is Classified as Small Equipment at HRM

The OAG expected small equipment acquired and used across the organization to be based on similar criteria and therefore have a consistent definition. However, from the questionnaire responses and follow-up discussions with HRM management, the OAG determined there are no documented definitions of small equipment and definitions provided by the business units lack consistency.

What the OAG determined from the questionnaire is, in the absence of a corporate-wide small equipment program, business units have created their own internal definitions of small equipment, which include some or all of the following:

- “Tools like grinders, hand tools, drills, podium/stand lighting, diagnostic hardware (scanners/datalinks)”
- “Any "tool" that can be purchased under \$1000; and any equipment with a gas or diesel engine worth under \$5000 ex. Chain saws, generators, laser levels measuring wheels”
- “Any equipment over \$100 for example, hand tools, technical rescue equipment gas meters, firefighting hose”
- “Anything which does not require a motor vehicle license plate (this fleet definition covers a wide array of hand tools as well as larger units such as lawn tractors)”
- “Any item with a lifespan of five years that either individually or when pooled would cost \$50,000 or more (ex: ballistic vest, rifles, firearms, simulator)”.

Recommendation:

2.1.1 The OAG recommends HRM Administration establish appropriate criteria to define and classify small equipment across HRM business units.

2.2 Acquisition Decision Responsibility and Criteria

HRM's Procurement Policy, Administrative Order #35, establishes purchasing guidelines for the procurement of goods and services by HRM. The Procurement Policy is limited to the actual purchase of the equipment. The policy does not provide any guidelines around the responsibility for acquiring small equipment or the acquisition decision-making criteria. The OAG could not find any other policy or corporate guideline with regards to what processes and criteria are to be used to acquire small equipment.

As there is a lack of a corporate-level small equipment program, the responsibility for the acquisition of small equipment varies between business units. The OAG noted, within some business units, the acquisition decision rests with experienced employees who work with small equipment such as technicians or supervisors. In other business units, the decision rests with senior management of the business unit. The OAG also noted some business units require a joint approval process with Corporate Fleet however, a cost threshold was not indicated. From the questionnaire responses and follow-up discussions with representatives from HRM business units, the OAG has concluded there is no clear, consistent process across HRM outlining responsibility for decisions over purchasing small equipment.

The OAG also noted the decision criteria used for acquiring small equipment varies between business units. The OAG was advised some criteria are used by HRM business units however, these are not used or applied consistently. Examples of criteria used by the various business units include some of the following:

- small equipment has reached the end of its operational life or is beyond the point to safely repair,
- the cost to buy new small equipment compared to the cost of maintaining current equipment,
- day to day operational requirements,
- total cost over the life of the asset,
- the type of project being undertaken and
- availability of small equipment assets within the business unit.

While these decision criteria are highly valuable, without adequate documentation outlining appropriate acquisition steps (which criteria to use or use in a particular situation), these criteria are likely to be applied inconsistently or not at all.

The OAG was pleased to note, HRM does have stronger methodologies in place with respect to certain other types of small assets (not within the scope of this review). When reviewing the HRM Purchasing Card policy⁵, the OAG noted a methodology which adds greater control around the process of acquiring, maintaining and supporting Information Technology (IT)-related assets. The Purchasing Card Policy states individual business units are not authorized to purchase items such as computers, printers and other items which are ultimately the responsibility of Information, Communications and Technology (ICT). Items purchased outside of the controls outlined in the corporate purchasing card policy will not be supported by ICT and are to be returned. The OAG believes the same type of purchasing methodology used for IT-related assets may be useful to apply to small equipment.

The OAG did note certain business units have controls in place restricting the acquisition of assets based on dollar criteria. What is not clear is the amount of analysis performed when determining whether to acquire or replace a particular asset. The OAG suggests part of an approach to acquiring small equipment assets may include using a total cost of ownership⁶ (TCO) methodology. TCO is sometimes referred to as life cycle cost analysis. When analyzing whether to purchase an item, it is important to ensure all costs over the life of the asset are considered. Some of the elements which could be considered include acquisition, set-up, operating, maintenance, insurance, security and disposal.

The OAG wishes to make it perfectly clear, we are not advocating TCO be used for all small equipment acquisitions or in fact suggesting exactly the same acquisition approach be applied in all cases. The OAG is merely suggesting HRM may wish to have a documented approach including the concept of TCO available, with managers having the latitude to consider the cost benefit of a full TCO analysis for a \$1,000 item as compared to, for example, a \$10,000 item.

Having said that, the OAG does believe TCO is a useful tool to assist with substantiating the economic decisions of acquiring assets for an organization. The advantage of this analysis is to aid in long-term planning for maintenance versus replacement of assets, as well as ensuring all costs associated with small equipment are considered when the decision to purchase new assets is being made. The OAG believes having clearly defined and documented TCO

⁵ The Purchasing Card Program was introduced to establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions.

⁶ Total Cost of Ownership is a financial measure intended to determine the purchase price of an asset plus the costs associated with operations.

and other small equipment guidelines would help to provide standardized decision making across the different business units and ensuring effective program outcomes are achieved by allowing more than one individual to reach the same conclusion of whether or not to purchase new small equipment.

Recommendations:

- 2.2.1 The OAG recommends HRM Administration review the current approach for responsibility over small equipment assets to improve the overall control and accountability with respect to acquisition and management of small equipment.
- 2.2.2 The OAG recommends HRM Administration establish consistent decision-making criteria across HRM, which incorporates total cost of ownership criteria, to assist staff in determining when and how to acquire small equipment. This recommendation is made within the context of cost – benefit of this approach given the asset being considered.

2.3 HRM Tangible Capital Asset Policy

HRM’s Tangible Capital Asset (TCA) policy identifies how small equipment assets are to be treated for accounting purposes. Under the TCA asset classifications, HRM outlines small equipment as “equipment, not already captured as a vehicle, with a value of \$50,000 or more and an anticipated useful life of 5 years.”⁷ “Assets that individually do not meet the threshold for capitalization may be owned in large quantities and therefore, in aggregate, represent a material amount. These assets will be tracked in an asset accounting register as a pool.”⁸ It would appear, individual items under \$50,000, unless purchased as a group (with an aggregate value greater than \$50,000), are not required to be capitalized and are expensed in the year purchased and are not required to be tracked for accounting purposes.

⁷ Halifax Regional Municipality (HRM) Tangible Capital Asset Policy

⁸ Section 4.3.1.10 of the HRM Tangible Capital Asset Policy States “Pooled assets will be identified where there is a program in place to acquire or upgrade assets of a similar sort and the program to acquire or upgrade these assets is in excess of \$50,000. For example, the acquisition of an individual piece of equipment may be not be in excess of the threshold to set it up as a discrete tangible capital asset but if there is a program in place to acquire, upgrade or replace similar pieces of equipment at a point in time, the cost of all the equipment acquired, upgraded or replaced as part of that program may be in excess of \$50,000 and recorded as one tangible capital asset pool at the end of the fiscal year.”

In discussions with Finance and Information, Communications & Technology (FICT) staff, the OAG was advised a physical review of general ledger expense accounts is performed at the end of each fiscal period to determine if there are items which have been miscoded. This review requires FICT staff to scan the various general ledger expense accounts and determine (based on a dollar value threshold of \$50,000 as per the TCA policy), if items were expensed where they should have been treated as capital items. If items satisfy the TCA threshold for pooled assets above \$50,000 or if any other miscodings are found, a journal entry is made to move these items to the appropriate capital account.

Staff indicated, “from an Accounting Perspective, the TCA Policy and the Asset Accounting Module of SAP we use to track our Assets is not designed to safe guard or track our small equipment. The TCA policy is a financial accounting policy designed to record and amortize the Tangible Capital Assets on the Consolidated Financial Statements. Items like Small Equipment would be recorded in the Asset Accounting Module as a “Pooled Asset” and as such we do not track individual pieces of equipment.”

The OAG scanned two general ledger expense accounts identified as equipment and small tool purchases from 2010/11 to 2014/15 and noted it appears approximately \$17 million was expensed over the five-year period.

After conducting the high level review of the general ledger expense accounts the OAG attempted to determine whether staff outside of FICT were tracking their small equipment purchases and inventory. When the OAG questioned business unit staff on the dollar amount of small equipment acquired on an annual basis for their business unit, three of the seven business units in scope were able to provide estimates. During follow-up conversations, one of the business units indicated to the OAG it estimates having approximately \$40 - \$45 million worth of small equipment within the business unit. Given this was an estimate from a single business unit, the total value of small equipment in HRM is potentially quite significant and it is the view of the OAG the total amount should be determined in order for these assets to be properly managed.

One of the business units indicated to the OAG it estimates having approximately \$40 - \$45 million worth of small equipment within the business unit.

Recommendation:

- 2.3.1 The OAG recommends HRM Administration perform a full-scale review of small equipment to identify all items owned by HRM, evaluate current organizational needs and adjust the small equipment inventories accordingly.

2.4 Processes to be Followed for the Ownership and Use of Small Equipment

It is common in many organizations to establish operating policies or guidelines with respect to the use, maintenance and safeguarding of assets. As described earlier in this report, the OAG has noted the absence of a specific program to manage small equipment assets across HRM. In the absence of a small equipment program, business unit questionnaires were issued to determine the maintenance and safeguarding practices utilized by the various business units.

Maintenance of Small Equipment

For assets held within the business units, maintenance costs remain in the individual business unit's budgets. In the case where Corporate Fleet maintains assets for other business units, the cost of this maintenance is budgeted in Corporate Fleet and is not allocated to the business unit using the asset. Since there is no prescribed account to capture maintenance costs or centralized reporting, it is challenging to determine the total amount spent across the organization to maintain small equipment annually.

As the OAG has noted in previous reviews, by not allocating all costs to the appropriate business units, the business unit using the asset does not know the full cost to provide its services. Also, with no coordination of maintenance efforts at HRM, the OAG was advised small equipment may be repaired externally when it could potentially be less costly to maintain internally or purchased new and with a more immediate turnaround to operational status.

Controls with Respect to Safeguarding Small Equipment

Typically, organizations having significant amounts of small equipment assets will implement specifically designed safeguarding controls around these assets, especially when there is a risk of misappropriation or the assets being misplaced. While each organization may choose to implement various asset management practices to best suit their operations, some common practices include:

- Accurate, up-to-date listings of all assets,
- Periodic reconciliations of assets back to lists maintained,
- Centralized responsibility for the asset management system and
- Knowledge of the financial cost of equipment to the organization.

As noted earlier, jurisdictions such as the State of Washington have undertaken an exercise to add greater controls around assets which they deem to be 'small and attractive'. As mentioned previously, under the State of Washington's policy⁹ around small equipment, small and attractive assets are defined as "Assets that do not meet the state's capitalization policy but that an agency considers particularly vulnerable to loss, thus subject to special property control." The OAG is of the view, this type of asset identification can lead to the development of risk specific controls and better asset management.

The OAG was made aware, there is no policy within HRM to track assets purchased and expensed. However, through the questionnaire responses, the OAG identified some of the following asset management techniques being implemented by various business units:

- manual (physical) asset sheets,
- sign out and in programs,
- annual asset management checklists,
- development of Enterprise Asset Management (EAM) software,
- Fleet Focus software (currently isolated to Corporate Fleet, Procurement and Halifax Transit),
- assets tagged and recorded in SAP or
- electronic asset listings in Excel.

The questionnaire responses identified business units are not consistently utilizing asset identification techniques to ensure small equipment is identified and tracked. Providing an asset identification number or tag could allow the organization to individually track the asset through asset identification software (i.e. SAP) and provide the ability to track the assigned location of the asset or the individual to which the asset was assigned (if applicable). In the absence of a corporate-wide asset identification program, business unit staff may potentially purchase duplicate assets or duplicate assets could exist within business units with the acquisition not supported by operational needs. Further, a lack of asset tracking may also lead to HRM incurring expenditures at a premium rate for renting of the equipment when the item is in fact available elsewhere in the organization.

⁹ State of Washington, Capital Asset Inventory Records Policy, Small and Attractive Assets

Recommendations:

- 2.4.1 The OAG recommends HRM Administration develop a process to identify and report the amount spent annually on small equipment acquisitions as well as the annual repairs and maintenance of these items.
- 2.4.2 The OAG recommends HRM Administration instruct all business units to leverage the existing asset management systems currently available at HRM to effectively track small equipment assets.

2.5 Process to Dispose of Small Equipment

Although not directly part of the scope of this review, during various discussions with one business unit, concerns were expressed around the prescribed methods to dispose of small equipment. The OAG felt, while a detailed review of the disposal of small equipment was not directly in scope, with concerns expressed by a business unit, the OAG is obligated to make note of the concern.

At the end of an asset's life cycle, the asset is typically disposed of by the owner. Administrative Order #35 specifies "Assets shall be sold by the most effective means in order to obtain the highest net value for the Regional Municipality. Assets shall be disposed of by either Request for Tender, Request for Quotation, or auction as reasonably practical.

The OAG has noted HRWC goes one step further than the HRM Administrative Order and recognizes other methods of disposal for surplus assets based on value. HRWC's policy specifies two methods for disposing of surplus assets. "Surplus assets over the value of \$50,000 shall be disposed of by Public Tender and contract for disposal of such assets shall be awarded by the GM." "In other cases, where assets fall below the \$50,000 threshold, surplus assets shall be disposed of by the GM as reasonably practical in the circumstances."

During follow-up conversations, staff in one business unit indicated there is currently an accumulation of items within the business unit which are no longer required to support day-to-day operations. The assets range from various fixtures to items such as broken cameras and radio equipment.

It is difficult for the OAG to provide definitive commentary on this matter due to the very limited information available to the OAG (not included within the scope or objectives of this review) however, general commentary is able to be

made. Therefore, in an attempt to engage Management on the matter and ensure flexibility to have unique solutions (for example, for specialized or business unit specific equipment) to ensure maximum disposal value is obtained for HRM, the OAG provides the following two recommendations.

Recommendations:

- 2.5.1 The OAG recommends HRM Administration clearly communicate the acceptable methods for disposing of small equipment assets to ensure staff are advised of the current practices available across HRM.
- 2.5.2 The OAG recommends HRM Administration establish and document procedures around the disposal of small equipment assets to ensure the highest salvage value is received for the asset.

Appendix A: Management Response



JOHN TRAVES, Q.C.
ACTING CHIEF ADMINISTRATIVE OFFICER

July 15, 2016

Larry Munroe
HRM Municipal Auditor General
Belmont House, Suite 620
33 Alderney Drive
Dartmouth, Nova Scotia B3J 3A5

Re: A Performance Review of the Management of Small Equipment – Halifax Regional Municipality

Dear Mr. Munroe:

Thank you for the opportunity to review the draft report, *A Performance Review of the Management of Small Equipment – Halifax Regional Municipality* sent by your office on June 21, 2016. As with previous reports released by your office, I will take the recommendations under consideration and ensure that administration develops an approach to address the main issues you have identified.

The themes identified in this report, such as risk management, development of policies and procedures, and decision-making accountability are being consistently applied in several ongoing initiatives of the municipality. Some of the work that has been initiated, partially as a result of past reports released by your office, is helping to address these themes. This work includes the organization's risk management model and policy framework, as well as corporate asset management.

Specific to the management of small equipment:

- The revised municipal Procurement Policy contains additional and stronger language related to the disposal of surplus equipment, including the role of both CAO and Council for approval in specific situations.
- Corporate Fleet is utilizing Fleet Focus to track all small/handheld equipment that Business Units purchase directly and will conduct an annual review of financial impacts. In addition, Fleet Focus will be utilized to identify and monitor maintenance of small equipment owned by Business Units.

HALIFAX

Halifax Regional Municipality
City Hall, 1841 Argyle Street, PO Box 1749
Halifax, Nova Scotia, Canada B3J 3A5

t. 902.490.4026
f. 902.490.4044
halifax.ca

- A draft policy is being developed for review by the end of October to further clarify responsibility for maintenance and tracking of small equipment.

As always, HRM Administration will ensure the findings presented by your office are addressed in a coordinated manner, as we strive to continuously improve our processes and management throughout the organization.

Sincerely,

HALIFAX REGIONAL MUNICIPALITY

Original Signed

John Traves, Q.C.
Acting Chief Administrative Officer



Halifax Regional Municipality
City Hall, 1841 Argyle Street, PO Box 1749
Halifax, Nova Scotia, Canada B3J 3A5

t. 902.490.4026
f. 902.490.4044
halifax.ca