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# AUDITOR GENERAL

Halifax Regional Municipality

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## Compliance Review of Expenses: Mayor, Councillors, Senior Management and Staff, 2013/14<sup>©</sup>

**April 2015**

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### Table of Contents

Executive Summary.....	3
Summary of Recommendations.....	5
Preamble.....	8
Objectives.....	8
Scope .....	8
Methodology .....	9
1.0 Follow-up Review – Issues Not Addressed from Previous Review .....	10
2.0 Purchasing Card Statements and Transactions .....	15
3.0 Additional Observation .....	17
Appendix A – Management Response.....	18

## Executive Summary

In order to ensure a high quality over stewardship of public funds and to maximize value for money for Halifax Regional Municipality (HRM) taxpayer dollars, the Office of the Auditor General (OAG) has initiated a formal process to follow up on previously reported recommendations to determine the status of each recommendation. Based on the perceived sensitivity of expenses and repeated media reports around expenses in the public sector, the OAG decided to include this project in the work plan on a continuous basis.

The OAG is once again pleased to report, for the samples selected during the period under review, there were no obvious abuses of the Employment Expense Reimbursement Policy or the Purchasing Card Policy at HRM by the Mayor, Councillors, senior management and staff. There were some instances of policy non-compliance; however, these appear to be isolated instances and not part of a systemic pattern.

Upon reviewing expenses in the current sample, the OAG identified the following examples of non-compliance (some of which were also identified in the 2013 Review of Expenses):

- inconsistent application of HRM mileage grid supporting to/from distances used for travel claims,
- instances where formal approval prior to out-of-town travel was not received,
- instances where purchases were made which were not supported by adequate documentation and
- instances where expenditures were reimbursed but were mathematically inaccurate despite multiple levels of review.

Where this project is a follow-up of the OAG's 2013 Review of Expenses (Mayor, Councillors and senior management), the OAG requested copies of the current expense reimbursement policies in use to determine any updates made and to test if risks previously identified have been mitigated through policy improvements.

As a result of our procedures, the OAG has concluded HRM has not made significant progress on the recommendations made in the previous review of expenses.

It is the view of the OAG, there is a continued need for stronger internal controls and clearer communication of policy guidelines to ensure the true objectives of the expense reimbursement program and the purchasing card program are satisfied in order to maximize the value for money and the overall quality of stewardship of HRM funds.

The OAG is pleased to see positive action taken by Halifax Public Libraries (HPL) and Halifax Regional Water Commission (HRWC) to address previous deficiencies and to provide clear guidance to claimants as to when eligible expenses are incurred.

## Summary of Recommendations

- 1.0.1 The OAG recommends HRM Administration review the various expense-related reimbursement forms currently in use to ensure they meet organizational needs. Forms and policies in use should be communicated to all employees and elected officials to make certain they are aware of the correct forms to use and, for example, the appropriate distance to be claimed. Form titles should be updated to indicate the complete purpose of all expenditures (including non-travel related items). This review should also include an update of the HRM Travel Grid. (Page 13) **(REISSUANCE of Recommendation 1.2.1, December 2013)**
- 1.0.2 The OAG recommends HRM Administration and Regional Council formalize circumstances where Councillors can claim mileage reimbursement when travelling from their place of residence. (Page 13) **(REISSUANCE of Recommendation 4.0.1, December 2013)**
- 1.0.3 The OAG recommends HRM and its ABCs set in policy what reasonable/allowable charges are for hotels, rental cars, and other travel related expenses not covered by the current policy. (Page 14) **(REISSUANCE of Recommendation 4.0.2, December 2013 (HRWC has revised its policy to satisfy this recommendation))**
- 1.0.4 The OAG recommends Regional Council review the approval for Mayor, Councillor and CAO expenses with a focus on implementing the leading practice of a supervisory or 'one-up' approval mechanism to strengthen internal controls. (Page 14) **(REISSUANCE of Recommendation 2.0.1, December 2013)**
- 2.0.1 The OAG recommends HRM Administration review the Purchasing Card Policy to ensure the list of allowable items still meets the operational needs of HRM. (Page 15)
- 2.0.2 The OAG recommends HRM Administration review the current data being provided by Visa and ensure the data provides the most effective means of managing the purchasing card program. HRM may wish to consider requesting Visa provide the information which was captured under the previous program with MasterCard. (Page 16)

3.0.1 The OAG recommends HRM Administration provide improved guidance around the review of expense reimbursement to eliminate calculation errors before claims reach the accounts payable department. HRM Administration may wish to consider using an electronic reimbursement form rather than manual entry to assist in reducing these types of errors. (Page 17)

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## Detailed Findings and Recommendations

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**Preamble**

The Office of the Auditor General completed a review of Mayor, Councillors and senior management expenses in 2013. Based on the perceived sensitivity of these expenses and repeated media reports around expenses in the public sector, the OAG decided to include this project in the work plan on a continuous basis.

Findings and recommendations from the previous review were mainly around clarifications of policy.

Once again, there were no obvious abuses of the Employment Expense Reimbursement Policy or Purchasing Card Policy identified during this review. There were some instances of policy non-compliance; however these appeared to be isolated instances and not a systemic pattern. For this project, the OAG decided to extend testing to include samples of reimbursement of staff expenses to ensure the policy is being followed throughout the organization.

**Objectives**

The main objective of this project was compliance in nature. The focus was to verify adherence to the Employment Expense Reimbursement Policy and the Purchasing Card Policy in place at the time of the expenditure. The OAG also reviewed the adherence to expense reimbursement policies and purchasing card policies for Halifax Public Libraries (HPL) and Halifax Regional Water Commission (HRWC).

**Scope**

The project focused on payments made between April 1, 2013 and March 31, 2014 (2013/14). The project included the Mayor, Councillors and any current or former senior management and staff who had incurred expenses during this time period. Samples were taken of the expenses reimbursed as well as purchasing card expenses.

It is important for readers to clearly understand the scope of the transactions sampled. The current HRM process for reimbursing employees for expenses is to assign each employee a vender account number (0-9999) in the accounts payable system.



The scope of this report was limited to the account numbers noted. The OAG did not search for other methods of payment or reimbursement, or for names or accounts outside the stated scope.

This review also included the HPL and HRWC. For review of expense reimbursement and purchasing card transactions at HRWC, the OAG generated a sample of transactions from the population provided by HRWC.

## Methodology

The methodology followed in conducting this project included the following:

- Reviewed the expense reimbursement policies in place during 2013/14,
- Extracted expenses reimbursed during 2013/14 for HRM and HPL employees,
- Obtained expenses reimbursed for HRWC employees,
- Using a documented statistical sampling methodology, selected a sample of expense reports to be reviewed,
- For the expense reports selected in the sample above, purchasing card transactions for the same individuals were randomly sampled and reviewed,
- Extracted purchasing card transactions during 2013/14 for HRM and HPL purchasing card holders and using a documented statistical sampling methodology, selected a sample of purchasing card transactions to be reviewed and
- Obtained purchasing card transactions for 2013/14 for HRWC purchasing card holders and using a documented statistical sampling methodology, selected a sample of purchasing card transactions to be reviewed.

## 1.0 Follow-up Review – Issues Not Addressed from Previous Review

In conjunction with the Office of the Auditor General's follow-up process, the OAG has elected to review, on an annual basis, samples of expenses reimbursed by the Mayor, Councillors and senior management as well as purchases made on purchasing cards. In addition to the scope outlined in the OAG's 2013 Review of Expenses, the OAG also included in this project a review of staff expenses.

Since the 2013 Review of Expenses, the OAG is disappointed to note several prior recommendations have not been addressed by HRM Administration. The OAG reviewed sample files for 2013/14 and noted there are several recurring issues which were identified in the previous year's report. These issues include:

- Failure to identify specific to/from locations for both local and out-of-town mileage claims
  - The form currently used at HRM for local travel does not indicate where the claimant is travelling from. The policy indicates 'mileage will be reimbursed from the regular place of work, or from the employee's residence, whichever is less'. Since the form does not indicate where the claimant is travelling from, it is not possible to determine the reasonableness of claims
  - The published mileage grid currently being used is outdated and includes only a small list of HRM locations, of which some are no longer in service
  - Some estimation of mileage appears to occur. If Google Maps is used to identify the exact mileage for the trip, the result is often inconsistent with the mileage claimed (round numbers used) and
  - The current local travel policy does not specify guidelines around elected officials claiming mileage reimbursement from their personal homes.

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It is the OAG's understanding, each elected official declares their home as their place of work and therefore would be potentially eligible for mileage reimbursement for travel, however some claim mileage and others do not. It is always advisable to add clarity to these matters, particularly given the amount of media attention around expenses at the national level.

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- There is no formal documented signing authority for the Mayor, Councillor and Chief Administrative Officer (CAO) expenses. As noted in the previous review of expenses, the current Mayor has the CAO approve his expenses and vice versa while the Councillors' expenses are approved by the Councillor Support Office Manager.

Unfortunately, these approvals do not constitute one-up approval of the expenses; they are rather an administrative approval only. The Councillor Support Office Manager is responsible for the budget and account coding; however, she is not in a one-up, authoritative position to disallow, for example, a conference or out-of-town travel. It is common to have the Chair or Vice-Chair of Audit and Finance Standing Committee approve these types of expenses or have the expenses presented to an oversight committee for approval

- There are some conferences – such as the Federation of Canadian Municipalities (FCM) – where multiple Councillors attend. Currently, there is no documented guidance to determine which Councillors will attend on behalf of HRM. Also, a Councillor may show interest in attending an industry conference; however, there is no documented guidance or authorization as to whether the attendance is appropriate or not. If the Councillor is a member of the board or oversight body, it may be appropriate to attend.
- Instances (five) where reimbursements for local travel were both submitted and paid outside of the policies' specified reimbursement period without notes attached indicating reasons for the claim being submitted outside of the policy-specified period.

- Instances (two) where a purchasing card was used contrary to the purchasing policy
  - One instance – purchase of fuel for vehicle used for business use. Policy indicates expenditures of this nature must be purchased personally and reimbursed or purchased through a commercial fuel card
  - One instance – purchase of a local meal not pre-approved by a one-up supervisor or manager.
  
- Failure to indicate the specific purpose or reason for the purchase
  - Two instances within the Mayor & Councillor expense sample
  - Two instances within the senior management expense sample
  - Two instances within the staff expense sample
  - 29 instances within the HRM purchasing card expense sample.
  
- Some claims reviewed contained expenses in excess of the maximum allowable per diem amount outlined in the Employee Expense Reimbursement Policy and were not supported by appropriate documentation
  - Three instances – meetings over lunch incurred a cost per individual in excess of the maximum lunch per diem amount as per the HRWC Expense Reimbursement Policy. These instances took place before the organization was able to implement the OAG's previous recommendations. The OAG is pleased to note, in the revised employee expense policy at HRWC, changes have been made to provide clarity and direction to staff regarding reasonable claims, including when they are hosting meetings and providing entertainment to dignitaries.
  
- Instances (seven) where receipts were required to be provided to support the claim but were missing
  - One missing receipt was with respect to a claimed meal
  - Six missing receipts were with respect to parking.

While these expenditures were not supported by a corresponding receipt, each expenditure did appear reasonable.
  
- Instances (35) where all required information within the claims, such as names of individuals in attendance at meetings, were not provided.

- The OAG identified one expense which appears to be for the purchase of liquor which was fully paid by HRM. The amount, while small, is not allowed by policy.
- Documentation continued to vary, by individual and by business unit. HRM has yet to adopt and implement the previous recommendations of an organization-wide common practice to ensure accurate, complete and supportable reimbursement claims.

HPL and HRWC have made appropriate changes to their policies to reflect necessary documentation requirements as suggested in previous recommendations made by the OAG.

It is concerning, however, while HPL and HRWC have taken the necessary steps to address the issues raised in the previous OAG review which relate directly to them, HRM has yet to initiate such actions to satisfy the remaining recommendations provided in the 2013 Review of Expenses.

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recommendations provided in the 2013 Review of Expenses.**

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**Recommendations:**

- 1.0.1 The OAG recommends HRM Administration review the various expense-related reimbursement forms currently in use to ensure they meet organizational needs. Forms and policies in use should be communicated to all employees and elected officials to make certain they are aware of the correct forms to use and, for example, the appropriate distance to be claimed. Form titles should be updated to indicate the complete purpose of all expenditures (including non-travel related items). This review should also include an update of the HRM Travel Grid. **(REISSUANCE of Recommendation 1.2.1, December 2013)**
- 1.0.2 The OAG recommends HRM Administration and Regional Council formalize circumstances where Councillors can claim mileage reimbursement when travelling from their place of residence. **(REISSUANCE of Recommendation 4.0.1, December 2013)**

- 1.0.3 The OAG recommends HRM and its' ABCs set in policy what reasonable/allowable charges are for hotels, rental cars, and other travel related expenses not covered by the current policy. **(REISSUANCE of Recommendation 4.0.2, December 2013 (HRWC has revised its policy to satisfy this recommendation))**
  
- 1.0.4 The OAG recommends Regional Council review the approval for Mayor, Councillor and CAO expenses with a focus on implementing the leading practice of a supervisory or 'one-up' approval mechanism to strengthen internal controls. **(REISSUANCE of Recommendation 2.0.1, December 2013)**

## 2.0 Purchasing Card Statements and Transactions

The OAG generated representative samples of transactions pertaining to MasterCard and Visa purchasing cards for 2013/14. It is important to note, HRM switched purchasing card providers from MasterCard to Visa throughout the year. Due to the nature of the rollout, HRM issued new purchasing cards in stages which are reflected in the sample.

A request was sent to Procurement Services in mid-September, 2014 to provide all sample-selected MasterCard statements by October 1, 2014. Nearly six weeks after the original request, the OAG had not received all of the requested statements. Procurement staff indicated the reason for the delay was they were “not allowed to hire staff in a timely manner so they can be trained by the people they are replacing.”

Upon review of the transactions included as part of the OAG’s sample, several issues became evident, including:

- Procurement Services was unable to provide the OAG with two MasterCard statements, or 3.5% of the sample. If this were extrapolated to the entire population of MasterCard statements, 110 statements may be unable to be provided.
- Purchases were made which are not allowed under guidelines provided in the governing purchasing card policies. Purchases include taxis during out-of-town travel, parking, as well as the purchase of fuel for a personal vehicle. These are allowable expenses; however, at HRM, the Employment Expense Reimbursement Policy is the appropriate means to seek payment in these cases. The purchasing card is explicitly prohibited for these types of purchases.

It is important to note, following this issue being addressed by the OAG in our previous report, HRWC has taken appropriate steps to ensure additional clarity is provided to employees of HRWC with regards to appropriate application of their policy, including for purposes of entertaining clients, dignitaries and staff recognition.

### **Recommendations:**

- 2.0.1 The OAG recommends HRM Administration review the Purchasing Card Policy to ensure the list of allowable items still meets the operational needs of HRM.

2.0.2 The OAG recommends HRM Administration review the current data being provided by Visa and ensure the data provides the most effective means of managing the purchasing card program. HRM may wish to consider requesting Visa provide the information which was captured under the previous program with MasterCard.



### 3.0 Additional Observation

In addition to the specific findings raised throughout this report, the OAG also observed a variety of non-specific issues worthy of mention. One observation is not specifically related to expense reimbursement policies but may be an instance of non-compliance to other policies.

- The current approval process of accounts payable transactions raises additional questions to the OAG as it appears multiple reviews take place, prior to accounts payable processing expense reimbursement claims. It is the understanding of the OAG, the claimant or his/her designate prepares and approves the expense reimbursement claim, followed by the approval of the DCAO or appropriate supervisory position before being submitted to accounts payable for posting and payment
  - Two instances in this sample were noted where the amount claimed was incorrect and reimbursement was inappropriate for the claim (i.e. incorrect addition from one page to the next and claiming mileage while also claiming fuel reimbursement).

**Recommendation:**

- 3.0.1 The OAG recommends HRM Administration provide improved guidance around the review of expense reimbursement to eliminate calculation errors before claims reach the accounts payable department. HRM Administration may wish to consider using an electronic reimbursement form rather than manual entry to assist in reducing these types of errors.

## Appendix A – Management Response

**RICHARD BUTTS**  
CHIEF ADMINISTRATIVE OFFICER



May 11, 2015

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



**Re: Compliance Review of Expenses: Mayor, Councillors, Senior Management and Staff, 2013/14**

Dear Mr. Munroe:

I have reviewed the draft report, *Compliance Review of Expenses: Mayor, Councillors, Senior Management and Staff, 2013/14*, submitted to me on April 29, 2015 by your office. As with our past practice, we will take your recommendations under consideration and develop a plan to follow-up on the issues identified in the report.

As with your previous report, *Review of Expenses: Mayors, Councillors and Senior Management 2012-2013*, I was pleased to note that "there were no obvious abuses of the expense reimbursement policies or purchasing card policies identified during this review". It is always encouraging to see this level of accountability among HRM staff and elected officials.

Regarding the four recommendations that were reissued in this report from your previous review of expenses, I wish to note the following actions/clarifications:

- Since the release of your previous report, staff has been working on a comprehensive review of policies, guidelines and forms related to employee expense claims. The revised material is expected to be introduced and implemented in the coming months.
- Mileage is claimed by elected officials in accordance with HRM's Employment Expense Reimbursement Policy. Allowable mileage relates to activities associated with the role as an elected official: Regional Council, Committee of the Whole, Board and Committee meetings, meetings with residents and other government officials, attendance at events where a Council presence is required, etc.
- Supervisory or 'one-up' approvals are used for all employee and senior management expenses. As noted during the discussion at the December 20, 2013 Audit and Finance meeting at which the previous report was presented, it is not practical to have elected officials approving travel for other elected officials. In regard to approval of travel expenditures, Councillors are subject to the same rules and procedures as staff.

**HALIFAX**

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In an effort to further strengthen these actions, we will work to further refine policies and management practices related to the process of claiming expenses.

As always, I will continue to ensure that Administration appropriately responds to issues raised in your reports, while responsibly implementing and monitoring results.

Sincerely,

**HALIFAX REGIONAL MUNICIPALITY**

Original Signed

Richard Butts  
Chief Administrative Officer

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