

May 2018



AN INDEPENDENT AUDIT OF EXECUTIVE
EXPENSES AT SCHOOL DISTRICT 61

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Auditor General
of British Columbia

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The Honourable Daryl Plecas
Speaker of the Legislative Assembly
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report, *An Independent Audit of Executive Expenses at School District 61*.

We conducted this audit under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Handbook – Canadian Standard on Assurance Engagements (CSAE) 3001 and Value-for-money Auditing in the Public Sector PS 5400.



Carol Bellringer, FCPA, FCA
Auditor General
Victoria, British Columbia
May 2018

The Office of the Auditor General of British Columbia would like to acknowledge with respect that we conduct our work on Coast Salish territories. Primarily, this is on the Lkwungen-speaking people's (Esquimalt and Songhees) traditional lands, now known as Victoria, and the WSÁNEĆ people's (Pauquachin, Tsartlip, Tsawout, Tseycum) traditional lands, now known as Saanich.

AUDITOR GENERAL'S COMMENTS

THIS IS THE first report we're publishing as part of our new Compliance, Controls and Research (CCR) initiative. CCR delivers narrow-scoped performance audit projects that primarily focus on management controls and compliance. Our aim is to conduct smaller audits that provide value to the people of British Columbia, while ensuring our staff are fully engaged in meaningful work. Having an array of smaller projects helps us to stay nimble with our staffing resources.

For this CCR audit, we looked to see whether or not employer-paid expenses for executives at School District 61 (SD61) in Victoria comply with school district policies and follow the spirit and intent of core government policy.

We found that SD61 is doing a good job of managing the payment of executive expenses. SD61's financial records were complete and accurate, and we didn't find any instances of inappropriate or non-business expenses. With an eye to continuous improvement, we've offered the district some ways that it could enhance its policies and procedures. And, while payments were appropriate, we did find two variations from government expectations.

First, SD61 is taking on the financial risk of its employees' expenses by allowing employees to use corporate purchasing cards for work-related expenses. This means that the district is liable for repayment of the expenses. However, according to government policy, employees should pay for their expenses first and then get reimbursed by the district.

Second, SD61 didn't disclose all of its executive's expenses that it was required to because of its interpretation of the *Financial Information Act*. The district's approach has been to disclose only those expenses where an employee could be seen to have received a personal benefit (such as attending a conference or training course). We disagreed with



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Auditor General

AUDITOR GENERAL'S COMMENTS

this interpretation of the Act and the Ministry of Education confirmed our interpretation: all travel and accommodation expenses should be disclosed—even those for business meetings.

We encourage the other school districts in the province to read our report and ensure they're appropriately managing, and fully disclosing, their employees' expenses. It is important that payments for executive expenses be transparent and disclosed consistently across all school districts so that everyone is held equally accountable for funds entrusted and spent. The public should have confidence that district leaders are ethical and spending education dollars wisely.

I would like to thank everyone at SD61 for their cooperation with this audit.



Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
May 2018

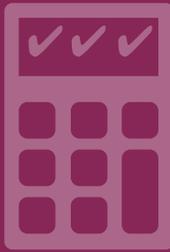
REPORT HIGHLIGHTS



Expense records were

COMPLETE
and
ACCURATE

ALL EXPENSES
were
APPROPRIATE



Misinterpretation of the Act led to **INCOMPLETE PUBLIC DISCLOSURE** of expenses



SD61 taking on **UNNECESSARY FINANCIAL RISK** from employee's expenses

5 recommendations to enhance **SD61'S POLICIES** and **PROCEDURES**

- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.



Encourage **ALL SCHOOL DISTRICTS** to **READ REPORT**



Executive expenses should be **TRANSPARENT** and **DISCLOSED CONSISTENTLY**

RECOMMENDATIONS

WE RECOMMEND THAT SCHOOL DISTRICT 61:

- 1** improve the clarity of its reimbursement policy by adding details about the type of entertainment expenses that are payable by the district.
- 2** require staff to review and sign their Reimbursement Policy and Card Use Guidelines to document that they have read and understand the policies related to the payment of employee expenses.
- 3** adopt practices consistent with Treasury Board's Core Policy and Procedures Manual, which requires employees to pay for their business expenses first and then be reimbursed.
- 4** enforce its policy requirement that all entertainment-type expense claims include details of the names of guests and their organizations, and the business purpose for the meeting.
- 5** disclose all executive business expenses, as required by the *Financial Information Act*.

RESPONSE FROM SCHOOL DISTRICT 61

THE GREATER VICTORIA School District plans to review and enhance the language in its reimbursement policies and procedures including adding clarity to the type of entertainment expenses that are payable by the District. In reviewing transactions, the District will ensure that the requirements of these policies and procedure are consistently enforced. The District also plans to update its processes to ensure that the reimbursement policies and procedures, as well as the purchasing card use guidelines, are reviewed and signed off by all employees on a periodic basis.

The Greater Victoria School District has established its own policies and procedures following the spirit and intent of the Treasury Board's Core Policy and Procedures Manual (CPPM). The District will review its practices for consistency with core government policy. However, given that the District has not had any issues with the occasional use of its Purchasing Cards for business travel expenses, the District plans to continue to use Purchasing Cards in this manner and ensure close monitoring of potential expenses that could fall outside of District policies and procedures.

The Greater Victoria School District will change its long-term practice around the disclosure of executive business expenses to ensure that it is in compliance with the Financial Information Act and meets the expectations of the Ministry of Education. This change will be effective for the 2018-2019 fiscal year.

BACKGROUND

WHAT ARE EXECUTIVE EXPENSES?

EMPLOYERS WILL GENERALLY pay for employees' work-related expenses. This ensures that employees don't personally pay for the goods and services needed to do their jobs. Employers typically pay for things like business meeting meals, business travel costs and conference fees. These employer-paid expenses are distinct from an employee's regular salary and benefits.

For this audit, we looked specifically at employer-paid expenses for senior-level management, including senior personnel involved in the recruitment of international students. For the purposes of this report, these are collectively called *executive expenses*.

WHY AN AUDIT OF EXECUTIVE EXPENSES?

Those at the top of an organization have significant influence over its culture and values. The public needs to have confidence that public sector executives adhere to the ethical principles of transparency and accountable spending. This sets the tone for responsible governance and is a good indicator of an organization's practices for payments of staff expenses as a whole.

We chose to look at executive expenses in the education sector because the sector is large, complex and decentralized. There are 60 school boards across the province, governing the operations of 60 school districts—each with its own executive staff.

Each school district is responsible for establishing its own policies and procedures, following the spirit and intent of—but not necessarily strictly adhering to—Treasury Board's Core Policy and Procedures Manual (CPPM). This means that school district executive expenses must be:

- ♦ verifiable and for valid business reasons
- ♦ accurately calculated
- ♦ completely recorded for transparent disclosures and ongoing audits

“*The Core Policy and Procedures Manual (CPPM) combines government-wide financial policy, management policy and financial administration procedures into a single online resource. The CPPM outlines government objectives, standards and directives for sound management and promotes consistent, prudent financial practices.*” ~ [Core Policy & Procedures Manual](#)

BACKGROUND

Expense disclosure requirements for the public sector

In addition to following the spirit and intent of the CPPM, school districts must publicly disclose details of their finances. The *Financial Information Act* requires that school districts produce Statements of Financial Information listing total payments made to employees earning base salaries of \$75,000 or more, including the total amount paid for their expenses.

Disclosing employer-paid expenses for executives makes the payments transparent to the public. It is important that school districts disclose this information consistently so the amounts can be compared to the other school districts. Disclosure is also a mechanism that helps promote the province's [Taxpayer Accountability Principles](#) of accountability, cost-consciousness and appropriate compensation.

WHO WE LOOKED AT

This audit is a first step in examining a sample of executive expenses in districts across the province. For our first examination, we selected a school district in Victoria—School District No. 61 (SD61).

AUDIT OBJECTIVE AND CONCLUSION

AUDIT OBJECTIVE

WE CARRIED OUT this audit to determine if employer-paid expenses for executives at SD61:

- ◆ comply with applicable school district policies
- ◆ follow the spirit and intent of core government policy

AUDIT CONCLUSION

We concluded that SD61's employer-paid expenses for executive staff comply with applicable school district policies and follow the spirit and intent of core government policy, with the following notes:

- ◆ SD61's policy related to payment of entertainment-type expenses could be clarified and the documentation requirements enforced.
- ◆ SD61's policy for employee use of corporate purchasing cards for employee business expenses differs from core government policy.

We also found that SD61's interpretation of regulatory disclosure requirements resulted in not all school district executive expenses being included in the Schedule of Remunerations and Expenses as part of their disclosures under the *Financial Information Act*.

SCOPE AND APPROACH

THE AUDIT WAS conducted in the summer of 2017. We interviewed SD61 staff and looked at SD61's financial records and statements for the 2015/16 and 2016/17 fiscal years. We looked at a sample of disclosed expense payments for six executives and staff, as well as SD61's policies and procedures for employer-paid expenses, to see whether SD61 had:

- ◆ policies and procedures to ensure the appropriate payment of executive expenses
- ◆ training to support the policies and procedures
- ◆ documentation to support payment of expenses
- ◆ disclosures of employer-paid expenses as required

Our sample covered 127 distinct executive expense payments worth approximately \$45,000 out of a total population worth about \$98,000.

We also compared the total of publicly disclosed expenses (as required under the *Financial Information Act*) for the six executives we sampled with the total of their expenses in the financial records to assess whether all of their expenses were disclosed.

The report is dated May 1, 2018. This is the date the audit team completed obtaining the evidence used to determine the findings and conclusions of the report.

KEY FINDINGS AND RECOMMENDATIONS

SD61 has clear policies and procedures, but they could be enhanced

WE EXPECTED THAT SD61 would have clear policies for the payment of executive expenses, and procedures to implement and enforce these policies. We also expected that executive staff members would be able to access and understand the policy documents.

Overall, we found that SD61 has developed clear policies and procedures for employer-paid executive expenses. However, we found that their expense reimbursement policy could be improved by adding more specific direction to staff related to the payment of entertainment-type expenses.

In addition, SD61's communication of policies and procedures on payment of executive expenses met our expectations. However, we found that SD61 could do more to verify that staff have read and understood the policies.

Clear policies and procedures are the starting point for fiscally responsible spending. And clear documentation and standardized steps for those policies and procedures ensure that staff share a common understanding of appropriate reimbursement practices. However, we found that the policy lacked specific detail regarding the eligibility of certain entertainment-type expenses for reimbursement.

Policy documents should be accessible to all staff so that they are aware of, and understand, the reimbursement policies. Staff should have a

solid understanding of these policies to reduce misinterpretation and prevent claims for ineligible expenses.

We found that SD61 policies and procedures are accessible to staff and have been implemented. Executive staff have corporate purchasing cards, and the instructions on how to use them are consistent with policies.

SD61 does not offer formal training on these policies, but it was clear through discussions with executive staff that they could easily access the policy resources, and that they understood them. However, this understanding was not verified by the district. In lieu of training, it's important for staff to document that they have read and understood the reimbursement policy.

RECOMMENDATION 1: *We recommend that School District 61 improve the clarity of its reimbursement policy by adding detail about the type of entertainment expenses that are payable by the district.*

KEY FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 2: *We recommend that School District 61 require staff to review and sign their Reimbursement Policy and Card Use Guidelines to document that they have read and understand the policies related to the payment of employee expenses.*

SD61's executive expenses are appropriately paid, but procedures could be improved

Specifically, we expected SD61's procedures to:

- ♦ ensure executive expenses are for valid business purposes
- ♦ follow the spirit and intent of Treasury Board's policy and procedures for employer-paid expenses, as outlined in the CPPM

Staff at school districts are expected to act in the best interests of the public. Policies and procedures that are consistent with the CPPM help to ensure the spirit and intent of government policy is followed. Well-designed financial controls, outlined in the procedures, help a school district detect and prevent payments for expenses that are not for business purposes. Policies and procedures also help create a culture of cost-consciousness, accountability and appropriate compensation.

We determined that all employer-paid expenses we examined were for valid business purposes. We also found that SD61 policies and procedures are generally consistent with the CPPM.

We found two areas of note with respect to payment procedures:

- ♦ The district's use of purchasing cards for employee business expenses differs from CPPM guidance.
- ♦ There were a few instances in which the district did not consistently enforce its own policy.

The CPPM states that office purchases, such as textbooks or stationery, should be made with a purchasing card. Purchasing cards are corporate credit cards; the employer is liable for charges made on these cards.

For employee business expenses, such as those incurred on a business trip, the CPPM directs that staff use either their personal credit card or a travel card issued by the employer in the employee's name. Employees are responsible for paying the balance on their card directly and are reimbursed by their employer based on an approved expense claim. By using different cards for different purposes, the employer does not take on the liability for employee expenses that may not be reimbursable. Also, general corporate purchases and employee expenses are kept separate.

We found that SD61 executives use purchasing cards for their business expenses. This practice follows SD61's policy, but it differs from CPPM guidance. Each school district is responsible for establishing its own policies and procedures, following the spirit and intent of—but not necessarily strictly adhering to—the CPPM.

KEY FINDINGS AND RECOMMENDATIONS

School district staff told us that they do not believe it is practical to expect employees to pay for employee business expenses and then to submit an expense claim. They note that the use of purchasing cards for business expenses has not caused any issues in the school district. This is consistent with our findings. However, we believe that this practice puts SD61 at risk of assuming liability for potentially inappropriate employee expenses and that this risk would be better mitigated by requiring employees to pay for their business expenses first and then be reimbursed.

Payment of entertainment-type expenses was one area where the district did not consistently enforce its policy. For example, SD61 policy states that when submitting claims for entertainment-type expenses, employees are to include the following details:

- ♦ the names of guests and their organizations
- ♦ the business purpose for the meeting

However, we found times when the district paid for entertainment-type expenses even though the claims did not include all of these details. As such, this district policy was not being enforced, potentially undermining its authority. If the requirement to include and validate the business purpose of the expense is important, it should be enforced.

RECOMMENDATION 3: *We recommend that School District 61 adopt practices consistent with Treasury Board's Core Policy and Procedures Manual, which requires employees to pay for their business expenses first and then be reimbursed*

RECOMMENDATION 4: *We recommend that School District 61 enforce its policy requirement that all entertainment-type expense claims include details of the names of guests and their organizations, and the business purpose for the meeting.*

SD61's expenses are accurate and comply with policies

We expected that employer-paid expenses would be:

- ♦ within the district policy's dollar limits, and accurately calculated
- ♦ formally approved, as required by policy
- ♦ for allowable expense categories (e.g., mileage, meals while on business travel)

SD61 should not over-pay or under-pay for actual business costs. Setting dollar limits on allowable expenses encourages staff to be cost-conscious in their business expense choices. Appropriate approvals and expense categories ensure appropriate oversight and confirm the expenses are for valid business reasons.

Our review of claims showed that SD61 payments for expenses were accurately calculated and within dollar limits. Overall, we found that claims had appropriate approvals and were for categories allowable by the policy.

KEY FINDINGS AND RECOMMENDATIONS

SD61's expenses are not fully disclosed

We expected that employer-paid expenses would be fully and accurately disclosed, consistent with the requirements of legislation. Each year, school districts prepare a statement of financial information that is made public as required by the *Financial Information Act*. When we compared the amounts disclosed in SD61's 2015/16 public report with its financial records, we found that the district had not included approximately \$104,000 of employer-paid executive expenses. When we compared the district's draft disclosure for the 2016/17 public report with its financial records, we found that the draft disclosure did not include approximately \$41,000 in executive expenses.

SD61 staff told us that they understand disclosure under the Schedule of Remuneration and Expenses as limited to those expenses that provide a personal benefit to the employee. We understand that this has been their practice for over 18 years and is based on their interpretation of the Financial Information Act Regulation.

The regulation states that disclosure of expenses "is not limited to expenses that are generally perceived as perquisites, or bestowing personal benefit, and may include expenditures required for employees to perform their job functions." School district staff interpreted may as not requiring disclosure of expenses related to an employee's job function. For example, the director of International Student Programs travels internationally to recruit students and, as such, the travel expenses have not been publicly disclosed.

However, expenses deemed to provide a personal benefit, such as attending a conference or workshop, have been publicly disclosed.

We interpret this regulation differently, and our view is shared by the Ministry of Education. The regulation is intended to ensure that all payments made for employee expenses are transparent to the public, regardless of being a perquisite, a personal benefit or related to an employee's job function.

The Financial Information Act states:

Within 6 months after the end of each fiscal year of a corporation, it must prepare a statement of financial information for that fiscal year that includes the following:

- (a) a schedule showing
 - (i) in respect of each employee earning more than a prescribed amount [\$75,000], the total remuneration paid to the employee and total amount paid for the employee's expenses, and
 - (ii) a consolidated total of all remuneration paid to all other employees

RECOMMENDATION 5: We recommend that School District 61 disclose all executive business expenses, as required by the Financial Information Act.

AUDIT QUALITY ASSURANCE

WE CONDUCTED THIS audit under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional

Accountants of Canada (CPA) in the CPA Handbook – Canadian Standard on Assurance Engagements (CSAE) 3001 and Value-for-money Auditing in the Public Sector PS 5400. These standards require that we comply with ethical requirements, and conduct the audit to independently express a conclusion on whether or not the subject matter complies in all significant respects to the applicable criteria.

The Office applies the CPA Canadian Standard on Quality Control 1 (CSQC), and accordingly, maintains a comprehensive system of quality control,

including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements. In this respect, we have complied with the independence and other requirements of the code of ethics applicable to the practice of public accounting issued by the Chartered Professional Accountants of BC that are founded on the principles of integrity, objectivity and professional competence, as well as due care, confidentiality and professional behaviour.

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