

August 2019

EXECUTIVE EXPENSES AT SCHOOL DISTRICT 36

An independent audit report

www.bcauditor.com



OFFICE OF THE
Auditor General
of British Columbia

CONTENTS

Auditor General's comments	3
Report highlights	5
Summary of recommendations	6
Response from School District 36	7
About the audit	8
Background	8
What are executive expenses?	8
Why audit executive expenses?	8
Scope and approach	9
Audit objective and conclusion	10
Audit objective	10
Audit criteria	10
Audit conclusion	10
Key findings and recommendations	11
SD36 has clear policies and procedures, but they could be enhanced	11
SD36 payments for executive expenses were accurate	12
SD36 payments for executive expenses were not always consistent with policy or good practice	12
SD36 accurately discloses expenses in accordance with the <i>Financial Information Act</i>	13
Audit quality assurance	15

623 Fort Street
Victoria, British Columbia
Canada V8W 1G1
P: 250.419.6100
F: 250.387.1230
www.bcauditor.com

The Honourable Daryl Plecas
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report *Executive Expenses at School District 36*.

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 Canada Handbook – Assurance 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
August 2019

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

LAST YEAR, WE looked at the employer-paid expenses for executives at School District 61 (SD61) in Victoria. That audit was a first step in examining executive expenses in a sample of districts across the province.

For the second audit in the series of examinations, we selected School District 36 (SD36) in Surrey. SD36 is the largest school district in the province, by both number of schools and student enrolment, and it's one of the few districts in British Columbia that are growing.

As with our work at SD61, we looked to see whether employer-paid expenses for executives at SD36 complied with the district's policies and followed the spirit and intent of core government policy as outlined in government's *Core Policy and Procedures Manual* (CPPM).

Overall, we found that SD36 is doing a reasonable job managing the payment of its executive expenses. The district's financial records were complete and accurate, and the public disclosures of executive expenses, as required by the *Financial Information Act*, were complete.

We did find some executive expenses that weren't adequately supported. For example, we found that the expenses for meals provided during meetings didn't always include an explanation of why the meeting was held during a mealtime, the purpose of the meeting or the meeting attendees. While SD36 policies did not specifically require explanations, this is a requirement under the CPPM and would help to ensure that district-paid meals are appropriate and supported. Further, this detail would enable analysis of meal expenses over time.

We also found that SD36 is taking on the financial risk for some employee expenses. School districts can make their own policies regarding expenses, but they're also required to follow the spirit and intent of the CPPM,



CAROL BELLRINGER, FCPA, FCA
Auditor General

AUDITOR GENERAL'S COMMENTS

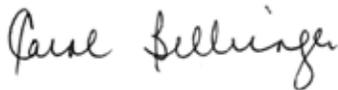
which states that employees should pay for their travel expenses first on a personal credit card or employer-issued travel card and then get reimbursed by the organization; this is also typical practice. Instead of using a travel card or personal credit card, district employees are given a corporate purchasing card to use for their work-related expenses. SD36 employees regularly charged travel expenses on their purchasing cards. The district is responsible for directly paying all of the charges incurred on the purchasing cards, including travel. We saw this same practice last year during our audit of SD61.

To further strengthen its management of the payment of executive expenses, we have offered SD36 management two ways to enhance its policies and procedures. One involves aligning its policies more closely with the CPPM, and the second involves ensuring the enforcement of its existing policy requirements for its employees.

We encourage the other school districts in the province to read our report and ensure that they are appropriately managing, and fully disclosing, their employees' expenses.

We also encourage the Ministry of Education to consider whether there are financial implications when school districts' financial practices are not consistent with government's core policy.

I would like to thank everyone at SD36 for their co-operation and assistance during our work on this audit.



Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
August 2019

REPORT HIGHLIGHTS



SD36 IN SURREY IS LARGEST SCHOOL DISTRICT IN B.C. AND GROWING



SD36's financial records were **COMPLETE and ACCURATE**



SD36's required **PUBLIC DISCLOSURES** were complete



SD36 taking on **UNNECESSARY FINANCIAL RISK** from employee's expenses made on **PURCHASING CARDS**



Some executive expenses **NOT ADEQUATELY SUPPORTED**



EXAMPLE:
Expenses for meals during meetings **DIDN'T INCLUDE REQUIRED RATIONALE**

2 recommendations to enhance SD36's **POLICIES & PROCEDURES**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.

SUMMARY OF RECOMMENDATIONS

WE RECOMMEND THAT SCHOOL DISTRICT 36:

- 1** align its policies more closely with Treasury Board's *Core Policy and Procedure Manual* in areas including:
 - a) employer-paid food for meetings
 - b) maximum per diem rates and eligible time frames
 - c) the use of purchasing cards for travel and individual business expenses
- 2** enforce its policy requirements for employees when making expense claims. Specifically, claimants should consistently document:
 - a) details and the business purpose for activities underlying expense claims
 - b) the business rationale for holding a meeting during a mealtime

RESPONSE FROM SCHOOL DISTRICT 36

THE SURREY SCHOOL district will be reviewing its policies and procedures and their alignment with Treasury Board's Core Policy and Procedure Manual. In particular, the district will focus on the issues identified in the report including: employer-paid food for meetings, maximum per diem rates and eligible time frames, as well as the use of PCards for travel and individual business expenses. The district will also review its transaction processing practices to ensure that the requirements of these policies and procedures are consistently enforced, particularly around the documentation of details and the business purpose for activities underlying expense claims, and the business rationale for holding a meeting during a meal time. The use of PCards with respect to business travel and meal expenses will be reviewed in an effort to determine the appropriate balance between the level of risk to the district and the operational efficiency of processing these transactions.

In addition, the district has initiated the process of establishing an Internal Audit Committee with external representation. The new committee will be tasked with reviewing the district's reimbursement policies and procedures, as well as reviewing internal controls to ensure consistent enforcement. The Internal Audit Committee will be established during the 2019-2020 fiscal year.

ABOUT THE AUDIT

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 a sample of 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 audit 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.

An audit of the nature of executive expenses and the implementation of controls designed to ensure that they are appropriately paid by the employer reassures legislators and the public that public sector funds are being well managed.

This audit is the second in a series of small, targeted audits to examine executive expenses in school districts across the province. We chose to look at expenses in the education sector because the sector is large, complex and decentralized. There are 60 school boards in British Columbia, governing the operations of 60 school districts—each with its own executive staff.

We reported on our first audit in [*An Independent Audit of Executive Expenses at School District 61*](#), released in May 2018. School District 61 is a medium-sized urban district. For this second audit, we selected the Surrey school district—School District 36 (SD36). Surrey was selected because it is B.C.'s largest school district by number of schools; it also has the largest student enrolment and in 2017/18 was the City of Surrey's largest employer, with approximately 11,000 employees.

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).

ABOUT THE AUDIT

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](#)

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 with those of other school districts, as well as from one year to the next. Disclosure is also a mechanism that helps promote the province’s [Taxpayer Accountability Principles](#) of accountability, cost-consciousness and appropriate compensation.

SCOPE AND APPROACH

The audit was conducted in the fall of 2018. We interviewed district staff and looked at SD36’s financial records and statements for the 2016/17 and 2017/18 fiscal years. We reviewed a sample of expense payments for 11 senior management and staff, as well as the district’s policies and procedures for employer-paid expenses, to see whether SD36 had:

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

Our sample covered 210 distinct employer-paid expense claims worth approximately \$103,000 out of total employer-paid expenses of \$580,000 from 2016/17 and 2017/18.

We also compared the total of the publicly disclosed expenses (as required under the *Financial Information Act*) for the 11 members of senior management and staff, with the total of their expenses in SD36 financial records, to assess whether all of their expenses were disclosed.

The report is dated August 9, 2019. This is the date on which the audit team finished obtaining the evidence used to determine the findings and conclusions of the report.

AUDIT OBJECTIVE AND CONCLUSION

AUDIT OBJECTIVE

WE CARRIED OUT this audit to determine whether School District 36's employer-paid expenses complied with applicable school district policies and were consistent with core government policy.

AUDIT CRITERIA

We developed the following four audit criteria to conclude against our audit objective:

- ◆ **Criterion 1:** SD36 has relevant employer-paid expense policies and procedures that are documented and effectively communicated to staff.
- ◆ **Criterion 2:** SD36 employer-paid expense procedures (process controls) are consistent with guidance in the *Core Policy and Procedures Manual*, and are adequately designed and implemented.
- ◆ **Criterion 3:** All SD36 employer-paid expenses are accurately recorded and compliant with policy.
- ◆ **Criterion 4:** SD36 discloses employer-paid expenses as required by the *Financial Information Act*.

AUDIT CONCLUSION

We concluded that SD36's employer-paid expenses for executive staff generally complied with applicable school district policies, although we noted that SD36 should require documentation of the business rationale for meetings over mealtimes.

We concluded that SD36's policies are generally consistent with core government policy except for policies regarding the use of purchasing cards for travel expenses, per diem rates, and food purchased for meetings over mealtimes.

Finally, we concluded that SD36's disclosure of executive expenses complied with the requirements of the *Financial Information Act*.

KEY FINDINGS AND RECOMMENDATIONS

SD36 has clear policies and procedures, but they could be enhanced

WE LOOKED TO see whether SD36 has clear policies for the payment of employer-paid expenses, and procedures to implement and enforce these policies. We also expected that senior staff members would have a clear understanding of the relevant district policies and be able to review them easily.

Overall, we found that SD36 has developed clear policies and procedures for employer-paid expenses, and that the policies and procedures were well organized and easy to find. SD36's policies and procedures are available to staff via SD36's website, which has a policy-specific search tool to help individuals find the answers they need. We also found that management and staff appear to be knowledgeable about district policies and are confident that they know where, and how, to find an answer if they are uncertain.

In particular, SD36 has a policy for the use of purchasing cards that states that these cards are for the purchase of "supplies, instructional materials and other small consumables." Purchasing cards are corporate credit cards; the employer is directly liable for charges made on these cards. We found that staff who have one of these purchasing cards receive specialized training and written guidance, and must sign to acknowledge their understanding of the terms, conditions and responsibilities of using the card.

We also found that SD36 policies for employer-paid expenses are, in general, consistent with the spirit and intent of the *Core Policy and Procedures Manual*

(CPPM). While the policies for SD36 are not identical to those in the CPPM, they are reasonably designed to ensure that only valid claims will be reimbursed.

However, we did find several areas where the district's policies could be enhanced. For example, one SD36 policy allowed for employer-paid meals for trustee or senior managers if they attended meetings (at least two hours long) during a regular mealtime. This is quite different from guidance in the CPPM, which states that "meals at business meetings should be an exceptional rather than regular occurrence." The CPPM also notes that reimbursement for food over mealtimes should only be made when "it is essential that business discussion not be interrupted or where it is essential to meet over a meal period."

Another difference between SD36 policies and the CPPM relates to per diems. An employee travelling on business for a full day can claim up to \$51.50 for meals under the CPPM. An SD36 employee would be able to claim \$75 for meals. The CPPM also contains guidance regarding the times of day during which the employee must be away from their place of work to qualify for per diems. SD36's policies do not contain any such guidance.

KEY FINDINGS AND RECOMMENDATIONS

A significant difference is that 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. Under the CPPM, purchasing cards must not be used for individual travel-related expenses, including hotel accommodation and car rentals. Employees are responsible for paying the balance on their personal credit card or travel card directly and are reimbursed by their employer based on an approved expense claim.

SD36 policy allows employees to use their purchasing cards for individual travel expenses. This policy puts SD36 at risk of assuming liability for potentially inappropriate expenses incurred while the employee is travelling on business. This risk would be better mitigated by requiring employees to pay for their travel expenses first and then be reimbursed, making them more accountable for their expenses incurred while travelling.

RECOMMENDATION 1: *We recommend that School District 36 align its policies more closely with Treasury Board's Core Policy and Procedure Manual in areas including:*

- a) employer-paid food for meetings*
- b) maximum per diem rates and eligible time frames*
- c) the use of purchasing cards for travel and individual business expenses*

SD36 payments for executive expenses were accurate

We looked to see if executive expenses were being recorded accurately. We checked to ensure that expenses over \$20 had a receipt attached, as required by SD36 policy, and that the amount on the receipt matched the amount claimed and reimbursed. We found that executive expenses were accurately paid.

SD36 payments for executive expenses were not always consistent with policy or good practice

We looked to see if reimbursement of executive expenses was in compliance with school district policies and consistent with good practice.

We identified expense claims for which no business rationale was provided. This is not consistent with good expense management practices. As detailed below, some other claims did not appear to meet the school district's stated fundamental principle that "expenses paid from public funds ... meet the test of appropriateness and reasonableness."

Examples related to expense management

We found several issues relating to the nature of the expenses being claimed. In the area of meal expenses, 26 of 210 expense samples were for meals during meetings. While the district policy does allow for such claims, we found a lack of support for why the meetings needed to be held during mealtimes. For

KEY FINDINGS AND RECOMMENDATIONS

example, none of these claims included the time of day or an explanation as to why the meeting needed to be held during mealtimes.

In our audit, we identified a number of other expenses that appeared inconsistent with SD36 policies. For example:

- ◆ SD36 policy states that “expense claims will be submitted recognizing the fundamental principle that expenses paid from public funds have been incurred prudently and meet the test of appropriateness and reasonableness.” One expense claim in our sample included a meal during a meeting that consisted of two steaks at a cost of \$80 each, with a total meal cost of \$193.20. The comparable CPPM rate for one dinner is \$30.50.
- ◆ SD36 policy states that “travel is to be arranged by the most economical and practical mode giving recognition to the effective use of traveller’s time.” We found an instance where a limousine was booked for one-way travel in Quebec for one passenger at a cost of \$300. A return trip for one passenger was also expensed at \$150. Neither the origin nor destination within the city was specified in the documents supporting the claim.
- ◆ SD36 policy states that trustees and employees are expected to travel and lodge using the most economical options, giving fair consideration to travel times and proximity to scheduled events. However, unlike the CPPM, the policy does not require or encourage employees to book hotels with government rates. In our samples, we did not find any situations where the hotel stays in B.C. had been booked at B.C. government rates, although one of the

nine relevant expense claims we looked at did book a hotel stay at a rate comparable to the government rate. In several cases, the higher rates were justified, as the hotels booked were those chosen as conference locations.

We also found one instance where an individual submitted a claim for an evening meal, but also claimed for a per diem. In reviewing this issue with the individual, it was determined that this was an error due to the administrative assistant claiming a per diem without realizing that a receipt had already been submitted for the same meal. This was the only instance of this type of error noted during our sampling.

RECOMMENDATION 2: *We recommend that School District 36 enforce its policy requirements for employees when making expense claims. Specifically, claimants should consistently document:*

- a) details and the business purpose for activities underlying expense claims*
- b) the business rationale for holding a meeting during a mealtime*

SD36 accurately discloses expenses in accordance with the Financial Information Act

We looked to see if the expenses recorded in the school district’s financial statements were fully and accurately disclosed in the Statements of Financial Information (SOFI) schedules as required by the *Financial Information Act*.

KEY FINDINGS AND RECOMMENDATIONS

With some minor or explainable differences, we found that the information disclosed in the SOFI schedules matched the district's financial records for both the 2016/17 and 2017/18 fiscal years.

However, we did find an overstatement of nearly \$40,000 in the disclosure amount for the 2016/17 fiscal year. This did not show up as a discrepancy between the financial records and the SOFI, as the error was also in the financial records. The amount was related to the buyout of a leased car that was paid for by the district and then subsequently fully reimbursed by the employee through one payroll deduction. The amount was included, in error, in the expenses paid out for that employee.

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 Canada Handbook – Assurance* 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.

We apply the CPA Canadian Standard on Quality Control 1 (CSQC) and, accordingly, maintain 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 British Columbia, which are founded on the principles of integrity, objectivity and professional competence, as well as due care, confidentiality and professional behaviour.

AUDIT TEAM

Sheila Dodds
Deputy Auditor General

Ed Ryan
Executive Director

Mark Castator
Director

Barbara Underhill
Performance Auditor

Jake Tynan
Performance Auditor



Location

623 Fort Street
Victoria, British Columbia
Canada V8W 1G1

Office Hours

Monday to Friday
8:30 am – 4:30 pm

Telephone: 250-419-6100

Toll free through Enquiry BC at: 1-800-663-7867

In Vancouver dial: 604-660-2421

Fax: 250-387-1230

Email: bcauditor@bcauditor.com

Website: www.bcauditor.com

This report and others are available at our website, which also contains further information about the Office.

Reproducing

Information presented here is the intellectual property of the Auditor General of British Columbia and is copyright protected in right of the Crown. We invite readers to reproduce any material, asking only that they credit our office with authorship when any information, results or recommendations are used.





OFFICE OF THE
Auditor General
of British Columbia