

REVIEW OF:

# **Crown Corporations' Executive Travel and Employment Expenses**

## Introduction

Crown corporations are public sector organizations established and funded by the Government of British Columbia (the Government) to provide specialized goods and services to citizens. They operate at varying levels of Government control and are expected to follow the spirit and intent of the Government's Core Policy and Procedures Manual (CPPM or Government Policy).

Internal Audit & Advisory Services' 2019/20 Audit Plan included a review of executive travel and employment expenses for a sample of Crown corporations. The following Crown corporations were selected for review:

- B.C. Housing (BCH)
- B.C. Oil and Gas Commission (OGC)
- B.C. Pavilion Corporation (PavCo)
- Columbia Basin Trust (CBT)
- The Royal BC Museum (RBCM)

The purpose of the review was to perform:

1. Policy Review: To determine whether their travel and employment expense policies met the spirit and intent of Government's Core Policy and Procedures Manual.
2. Executive Travel Review: To determine whether executive travel was reasonable and consistent with their own internal policies.
3. Disclosure Review: To determine whether each Crown's disclosure of remuneration and expenses in the Statement of Financial Information was accurate.

As part of our review, we sampled 31% of the executive travel expenses reported by the Crowns in their 2017/18 and 2018/19 Statements of Financial Information. Executive expenses included those incurred by the Chief Executive Officer (CEO) and Vice Presidents (VP) directly reporting to the CEO during this period.

We have provided each Crown with recommendations to help align their practices with the relevant internal and Government policies and regulations.

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## 1.0 Policy Review

Financial policies provide an organization with structured and standardized practices to help ensure organizational objectives are met and to establish fiscal responsibility. The CPPM is a compilation of the Government's financial policies, general management policies and financial administration procedures. Crown corporations, public bodies and funded agencies are expected to develop policies and procedures that follow the spirit and intent of the CPPM.

Our review compared the Crowns' policies to the CPPM and found that they are generally aligned with a few exceptions. For instance, the Crowns' policies are not as rigorous for business class flights as the CPPM. We also noted instances where the internal policy lacked guidance in areas such as the combination of business and personal travel, alternatives to travel, and out-of-province and out-of-country travel. Certain Crown policies also reflected outdated Government policies.

One way to help ensure an organization's policies are aligned with the spirit and intent of current Government policy is to perform a periodic gap analysis. This would proactively identify differences between internal policy and the CPPM. Each Crown's policies and accompanying gap analysis should be reviewed and approved by their board of directors.

### **Recommendation:**

- (1) Crowns' management should perform a periodic gap analysis comparing internal policies to the CPPM. Their board of directors should review and approve the analysis, recommending changes where necessary.**

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## **2.0 Executive Travel Review**

We sampled a total of \$276,000 of the \$885,000 in executive expenses reported in the Crowns' Statement of Financial Information for fiscal years 2017/18 and 2018/19 to ensure they were appropriate, reasonable and consistent with their travel policies.

### **2.1 Appropriateness of Expenses**

To help ensure there is appropriate oversight and control over travel costs, each Crown established guidelines for the reimbursement of eligible expenses.

A variety of regional, national and international travel costs were selected for testing. For each sample, we reviewed the supporting documentation to ensure there was appropriate approval, and that all travel costs complied with rates prescribed within each Crown's policy.

Three primary areas for improvement were identified in all Crowns: pre-approval of travel, travel accommodation, and meal expenses.

### **2.2 Pre-Approval of Travel**

Pre-approving travel is a financial practice that helps ensure travel expenses are authorized and appropriate. Each of the five Crowns had a policy that required all employees to obtain approval prior to travel, but most did not require the pre-approval to be documented.

Well documented samples contained a travel authorization form with an explanation of the business purpose, an estimate of trip costs and written pre-approval.

In instances where documented approval was not required, verbal approval was typically given. As a result, we were often unable to observe documented evidence of the pre-approval of travel. This lack of documentation reduces the effectiveness of the organization's oversight and accountability for travel costs. The ability to effectively review travel expenses is impeded when there is insufficient documentation to demonstrate that expenses were authorized.

Crowns could improve their pre-approval process by requiring travel plans for travel that is infrequent or not part of regular operations. Travel plans submitted for approval should include a description of the business purpose and an estimate of travel costs.

Travel that is part of a Crown's operational requirements is typically frequent and has a consistent, predictable cost, such as trips to other local or regional offices. For travel of this nature, alternative controls may be more practical, such as budgeting and approving travel plans on a quarterly or annual basis, or a certain dollar threshold.

### **Recommendation:**

- (2) Executive travel should be pre-approved in writing, including the business purpose and an estimate of travel costs. The nature and frequency of the control may be adapted based on operational requirements.**




## **2.3 Accommodation**

Accommodation policies set expectations for employees when travelling overnight as part of their work function. An effective accommodation policy should provide guidance to employees on what the organization considers to be a reasonable nightly accommodation cost. The reasonability of a hotel rate might differ by city, province, country and season.

For in-province accommodation, Crowns' travel policies require employees to stay at hotels offering discounted Government rates, unless it is impractical, unfeasible or not available. Some Crowns require employees to use the Government's Business Travel Accommodation Listing when selecting hotels; a monthly listing of hotels offering Government rates that have been deemed reasonable. Due to the variability in nightly rates offered by hotels, we used this listing as a benchmark for the purposes of evaluating the reasonability of hotel stays selected for sampling.

For out-of-province accommodation, Crowns' travel policies require reasonable hotel rates. However, most policies do not establish guidelines to specify what is considered reasonable. Government policy states that, a reasonable amount must be established by considering the business requirements and federal accommodation rates as set by the Treasury Board of Canada. For this reason, we tested Crown executives' out-of-province accommodation against the limits set by the federal government.

Within our samples tested for accommodation and meal expenses, the number of findings noted for each Crown has been summarized as follows:

	No significant findings
	1-3 instances noted
	4-6 instances noted
N/A	Not tested in sample

**Table 1:** Insufficient documentation for accommodation rates in excess of Government guidelines.

Type	BCH		OGC		PavCo		CBT*	RBCM	
	VP	CEO	VP	CEO	VP	CEO	CEO	VP	CEO
In-Province	●	N/A	●	●	●	N/A	●	●	●
Out-of-Province	●	●	●	●	●	●	●	●	●

\*CBT does not have a Vice President position in its organizational structure.

For in-province accommodation, the majority of hotel rates for VPs were reasonable when compared to Government approved hotel rates. However, we noted instances where CEO accommodation exceeded the Government approved hotel rates.

Out-of-province accommodation rates varied significantly by trip, location and Crown. Most of the hotel stays incurred by VPs were consistent with the rates set by the Treasury Board of Canada; however, several incurred by CEOs exceeded approved rates.

The accommodation costs tested did not include documentation indicating whether the selected hotel exceeded what each Crown considered to be a reasonable rate. As Crown policies did not provide further guidance on rate reasonability, we were unable to assess if the lack of documentation indicated an absence of controls, or if each Crown considered these rates to be reasonable.

The Government's policy requires justification and pre-approval in instances where the chosen accommodation rates exceed the provincial or federal guideline.

Setting parameters for reasonable accommodation rates increases transparency in the use of public funds and helps control costs. It also increases the effectiveness of internal controls by clarifying when justification and approval must be given to exceed established rates.

### Recommendations:

- (3) **Crowns should provide additional guidance to clarify what is considered to be reasonable accommodation rates.**
- (4) **Crowns' policies should require justification and approval in instances where accommodation rates defined in internal policy will be exceeded.**

## 2.4 Meal Expenses

When an employee is travelling as part of their work duties, Crowns allow employees to claim meal costs through allowances or reimbursements. A meal allowance is a pre-defined amount of money given to an employee to cover meal expenses based on the time and duration they are travelling. Meal reimbursement is the payment of an employee's actual meal costs by the employer. Employers may also reimburse business meals, where that meal is used as part of conducting business matters with stakeholders.

While receipts are not required in order to claim meal allowances, they are required for meal reimbursements. In addition, where business meals are being paid, documentation should also include a description of the business being conducted and the parties involved.

**Table 2:** Insufficient documentation to support meal expenses.

Type	BCH		OGC		PavCo		CBT*	RBCM	
	VP	CEO	VP	CEO	VP	CEO	CEO	VP	CEO
Meal allowances	●	●	●	●	●	●	●	●	N/A
Meal reimbursements and business meals	N/A	●	●	●	●	●	N/A	N/A	●

\*CBT does not have a Vice President position in its organizational structure.

Each Crown followed the limits set for meal allowances in their policies and payments were consistent with the employees' dates and times of travel.

Overall, the meal reimbursements and business meals sampled did not contain appropriate supporting documentation. Some business meals were reimbursed based on credit card receipts, while others provided itemized receipts but did not detail the business purpose or parties involved. Insufficient documentation reduces the effectiveness of an organization's internal controls, as the expense authority cannot determine whether the costs being reimbursed are reasonable and consistent with internal policies.

### Recommendation:

- (5) **Crowns should require itemized receipts for meal reimbursements and business meals. Business meals should also require a description of the business purpose and the parties involved.**

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### 3.0 Disclosure Review

The *Financial Information Act* requires Crowns to disclose the total remuneration and expenses paid for on behalf of an employee, where total remuneration exceeds a prescribed amount (currently \$75,000 per year). Remuneration encompasses many forms of compensation; including salary, wages, bonuses, gratuities and taxable benefits. Non-taxable benefits are excluded from remuneration and are disclosed elsewhere in the report.

Some inaccuracies and inconsistencies were identified in how Crowns report remuneration. Most of the discrepancies were due to the exclusion of certain taxable benefits such as vacation and leave payouts or the inclusion of non-taxable benefits, such as the Canadian Pension Plan and Employment Insurance. These inaccuracies may result in the inappropriate exclusion or inclusion of certain individuals from disclosure requirements if these benefits would put them over or under the \$75,000 threshold.

Throughout our review we noted that Crown corporations do not have a clear understanding of the disclosure requirements and further guidance is necessary from the Office of the Comptroller General. A separate memo will be provided to the Office of the Comptroller General on how it can help Crowns improve compliance.

#### **Recommendation:**

- (6) Crowns should ensure their disclosure of remuneration and expenses is consistent with the *Financial Information Act* requirements.**

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We would like to thank the management and staff of each Crown for their assistance and cooperation throughout this review.



Stephen Ward, CPA, CA, CIA  
Executive Director  
Internal Audit & Advisory Services  
Ministry of Finance



## Appendix 1 – Summary of Recommendations

1	Crowns' management should perform a periodic gap analysis comparing internal policies to the CPPM. Their board of directors should review and approve the analysis, recommending changes where necessary.
2	Executive travel should be pre-approved in writing, including the business purpose and an estimate of travel costs. The nature and frequency of the control may be adapted based on operational requirements.
3	Crowns should provide additional guidance to clarify what is considered to be reasonable accommodation rates.
4	Crowns' policies should require justification and approval in instances where accommodation rates defined in internal policy will be exceeded.
5	Crowns should require itemized receipts for meal reimbursements and business meals. Business meals should also require a description of the business purpose and the parties involved.
6	Crowns should ensure their disclosure of remuneration and expenses is consistent with the <i>Financial Information Act</i> requirements.