



VANCOUVER COMMUNITY COLLEGE: EXECUTIVE COMPENSATION DISCLOSURES AUDIT

An independent audit report

March 2021



The Honourable Raj Chouhan
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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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 *Vancouver Community College: Executive Compensation Disclosures Audit*.

We conducted this audit under the authority of section 11(8) of the *Auditor General Act*. All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3000—Assurance Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook—Assurance*.



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March 2021

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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.

AUDIT AT A GLANCE

Why we did this audit

- Disclosures of employee compensation under the *Financial Information Act (FIA)* and the *Public Sector Employers Act (PSEA)* are not independently audited before they become public.
- We did this audit to provide assurance that disclosures comply with government requirements.

Objectives

To determine if Vancouver Community College's (VCC):

- annual remuneration and expense disclosures for executives in its *Statements of Financial Information* complied with FIA requirements.
- annual compensation disclosures for executives complied with PSEA requirements

Audit period: FIA and PSEA disclosures for 3 fiscal years: 2017/18, 2018/19 and 2019/20

Conclusion

We concluded that, in all material respects, VCC:

- complied with FIA remuneration and expense reporting requirements
- complied with PSEA executive compensation disclosure requirements

VCC has accepted the 4 recommendations we made on improving the way disclosures are prepared and strengthening internal controls.

What we found

Public reporting requirements met

- Errors we found were not materially significant.
- Disclosures presented as required by FIA/PSEA.
- The board reviewed and approved the disclosures.
- Disclosures available publicly as required

FIA expense reporting not well designed

- Not easy to identify and extract staff expenses from systems.
- Labour-intensive review is subject to human error.
- Not all potential sources of expenses are reviewed.

RECOMMENDATION 1, RECOMMENDATION 2

Internal control weaknesses exist

- Lack of guidance on procedures for preparing disclosures.
- Supervisors not required to formally document approvals.

RECOMMENDATION 3, RECOMMENDATION 4

After reading the report, you may wish to consider asking the following questions of government or VCC:

1. What is the purpose of having both FIA and PSEA reporting?
2. Why are FIA and PSEA reporting requirements different?
3. What can VCC do to make it easier to report employee expenses as required under the FIA?

BACKGROUND

Public sector employers in British Columbia spend more than \$30.4 billion a year on employee compensation (salaries, benefits, expenses)—more than half of the province’s annual budget. Executive compensation sets a benchmark for all other compensation levels in organizations.

Salaries and benefits are Vancouver Community College’s (**VCC**) largest operational expense, at \$87.6 million for 2019-20, or about 71% of its annual spending.

The *Financial Information Act* (**FIA**) and the *Public Sector Employers Act* (**PSEA**) both require public sector employers to disclose executive compensation for governance and public accountability purposes.

In 1985, the Government of British Columbia passed the FIA to strengthen overall public sector financial condition reporting and foster greater transparency of compensation for senior public sector employees. Sections 2 and 6 of the FIA require public sector organizations covered by the legislation to prepare a schedule showing the remuneration, bonuses and gratuities paid in respect of each employee who earned more than \$75,000 in cash compensation within six months after the end of the organization’s fiscal year. Organizations must keep a copy of this statement at their head office and make it available for review by anyone during usual business hours.

In the 1990s, executive pay was rising faster than average worker pay, and executive employment contracts were becoming increasingly complex. In 1993, the B.C. government passed the PSEA. The PSEA regulation, policy and guidance direct public sector organizations covered by the legislation to prepare executive compensation disclosures for chief executive officers and the next four highest earning employees earning over \$125,000 who are part of an organization’s decision-making team. These disclosures include base salary, performance pay, benefits and pensions, and other allowances such as vacation payouts, sick-leave payouts, and perquisites.

Information reported under the FIA and PSEA is both similar and different because the reporting requirements differ. For example, the FIA uses the term *remuneration* and the PSEA uses *compensation* and both define these terms as all remuneration paid to employees in the form of money or other benefits.

[Learn more about FIA and PSEA requirements.](#)

OBJECTIVES

Audit objective 1: FIA compliance

To determine if VCC's annual remuneration and expense disclosures for executives in its Statements of Financial Information complied with FIA requirements.

Audit objective 2: PSEA compliance

To determine if VCC's annual compensation disclosures for executives complied with PSEA requirements.

Scope

We examined VCC's compensation disclosures under the PSEA for the five highest compensated staff over three fiscal years (April 1, 2017 to March 31, 2020). We looked at VCC's FIA remuneration and expense disclosures over the same period, for the same people. In both cases, we examined supporting documents for selected public disclosures using directives and guidelines issued for the FIA and PSEA.

[Learn more about the audit details.](#)

CONCLUSIONS

Audit objective 1: FIA compliance

In our opinion, VCC's annual remuneration and expense disclosures for executives complied, in all material respects, with FIA reporting requirements.

Audit objective 2: PSEA compliance

In our opinion, VCC's annual compensation disclosures for executives complied, in all material respects, with PSEA executive compensation disclosure requirements.

FINDINGS AND RECOMMENDATIONS

FIA and PSEA public reporting requirements

VCC met FIA and PSEA public reporting requirements

What we looked for

- Were VCC's compensation, remuneration and expense disclosures in the formats required by FIA and PSEA and did they include the required notes?
- Did the VCC board review and approve FIA and PSEA disclosures?
- Were the disclosures made available for public review as FIA and PSEA require?

[Learn more about the audit details.](#)

What we found

VCC's public reporting of executive compensation, remuneration and expenses complied with FIA and PSEA. We found:

- the disclosures were presented in the formats required by the FIA and PSEA
- the board reviewed and approved the disclosures
- the disclosures were made available for public review as the FIA and PSEA require

VCC disclosure reporting methods

VCC's approach to FIA expense reporting not well designed

What we looked for

- Were VCC's FIA executive remuneration and expense disclosures, and PSEA executive compensation disclosures, complete and accurate?

[Learn more about the audit details.](#)

What we found

VCC's remuneration reporting under the FIA was complete: we found only one immaterial reporting error.

It is not easy for VCC to identify and extract employee expenses from its accounting system. Therefore, to meet FIA expense disclosure requirements, VCC has developed an approach to preparing expense disclosures for about 400 employees that uses both computer-generated results and manual review of receipts and invoices. This labour-intensive approach is subject to human error.

This approach also does not include a review of all potential sources of employee expenses from VCC's accounting system. VCC has employed a risk-based approach to capturing the information for disclosure – relying on the most likely sources for employee expenses – because its accounting system has not been set up to easily extract employee expense information. This has created a gap in what VCC reviews and a risk that reported expenses for some employees may be incomplete.

Why this matters

Accurate information about the full scope of executive compensation and expense reporting under the FIA is an important aspect of transparency in the public sector. However, inefficient systems and methods of capturing this information increase the effort required to provide these disclosures and increase the risk of inaccuracies.

Recommendations

We recommend that VCC:

- 1 evaluate its approach to preparing the expenses part of FIA disclosures for potential reporting gaps that could prevent complete and accurate expense reporting**

[See the response from the auditee.](#)

- 2 compare FIA and PSEA disclosure calculations to identify any potential errors or omissions early in the process**

[See the response from the auditee.](#)

VCC internal controls

VCC has some weaknesses in internal controls

What we found

We asked VCC staff to walk us through the systems, processes and procedures they follow to prepare FIA and PSEA disclosures, and we asked them to provide any documentation they have in relation to these processes. VCC management said they have not prepared formal guidance or procedures because the government has.

The government's guidance explains what it requires for the disclosures. But it does not help VCC staff understand what systems and procedures VCC management designed to get the required information from its accounting system to meet reporting requirements. Nor does the government guidance tell staff how to perform their tasks and document their results. And it does not tell supervisors what VCC expects from them in reviewing disclosures from staff.

We observed staff were diligent in preparing disclosures; however, their supporting documentation was not sufficient to clearly show how they got to their results.

VCC also lacks a formal process for documenting supervisory review of staff work before board approval.

Why this matters

VCC management is responsible for designing and implementing controls to achieve the organization's operational, reporting and compliance objectives: this includes giving staff clear guidance and procedures to follow. If staff do not carefully document their work, then supervisors cannot effectively review it to ensure that it is complete and accurate: this is a control weakness. The FIA and PSEA both require that review.

Internal controls are processes and procedures designed and used by an organization's board of directors, management and other staff to foster efficient, effective operations and achieve the organization's operational, reporting and compliance objectives.

The most well-known, generally accepted framework for internal control is one developed by the Committee of Sponsoring Organizations (COSO). We reviewed VCC's internal controls for this audit as they relate to FIA and PSEA reporting.

Recommendations

We recommend that VCC:

- 3 document its approach to preparing FIA and PSEA disclosures and develop guidance and procedures for staff**

[See the response from the auditee.](#)

- 4 require supervisors to confirm in writing that they have reviewed the support for draft FIA and PSEA disclosures before submitting them for board approval**

[See the response from the auditee.](#)

ABOUT THE AUDIT

We conducted these audits under the authority of section 11(8) of the *Auditor General Act* and in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3000—Assurance Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook—Assurance*. These standards require that we comply with ethical requirements and conduct the audits to independently express a conclusion against the objectives of the audits.

An attest audit involves understanding the subject matter to identify areas of significance and risk, and to identify relevant controls. This understanding is used as the basis for designing and performing audit procedures to obtain evidence on which to base the audit conclusion.

The audit procedures we conducted included document reviews, on-site observations, and interviews with financial administration staff to confirm our understanding of their practices and records.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our office applies the Canadian Standard on Quality Control (CSQC 1), and we have complied with the independence and other requirements of the code of ethics issued by the Chartered Professional Accountants of British Columbia that are relevant to these audits.

Audit report date: March 1, 2021



Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.

APPENDIX A: RECOMMENDATIONS AND AUDITEE RESPONSE

Vancouver Community College (“VCC”) would like to thank for the Office of Auditor General (“OAG”) for their audit and guidance on the Vancouver Community College Executive Compensation Disclosure for the fiscal years 2017/18, 2018/19 and 2019/20. We confirm that the audit was performed on the Statement of Financial Information (SOFI) prepared under the Financial Information Act (“FIA”) and on the Executive Compensation Disclosure prepared under the Public Sector Employers Act (“PSEA”).

VCC has been working hard to prepare the FIA report and PSEA disclosure, and understands the importance of transparency in reporting Executive Compensation in public sector. Every year, VCC undertakes significant efforts to ensure compliance and to provide accurate and complete disclosures to public.

However, there are significant challenges with the FIA disclosure. As stated in the audit scope, the audit was conducted to determine if VCC’s remuneration and expense disclosures in the SOFI meet the requirements issued by the FIA established in 1985. The requirement states that VCC must prepare a schedule, “showing the remuneration, bonuses, gratuities paid in respect of each employee who earned more than \$75,000 in cash compensation within six months after the end of the organizations’ fiscal year.”

As you are aware, the intention of the SOFI is to capture the compensation of the management and top earners. However, the audit work did not take consideration into that the FIA reporting requirements have not changed for 35 years while how we perform our business has evolved. The compensation threshold of \$75,000 has remained unchanged since 1985 while the time value of money has changed over time.

As a result, instead of reporting out the remuneration and expenses of the management and top earners, most of VCC’s full time faculty is included in the report, and the number of employees in the FIA report exceeded 400 in fiscal 2019/20 and is likely to increase in future years. This would be similar for most, if not all, public post-secondary institutes. We attempted to strike a reasonable balance to conduct thorough reviews of expenses in the FIA report; however, it is challenging to review all employees’ expenses line-by-line.

In addition, the two reports adopt two different accounting methods: The SOFI uses a cash basis accounting method while the PSEA disclosure uses an accrual basis accounting method. This is another result of the rules for the SOFI not being modernized over the past 35 years.

VCC acknowledges that there are opportunities for improvement in how these disclosures are prepared. These recommendations will improve VCC's processes and procedures in preparing and completing the required reporting. VCC is pleased to provide our responses to the recommendations made by the OAG below.

RECOMMENDATION 1: We recommend that VCC evaluate its approach to preparing the expenses part of FIA disclosures for potential reporting gaps that could prevent complete and accurate expense reporting.

RECOMMENDATION 1 RESPONSE: We understand the intent of the recommendation and agree with it. VCC allocates significant resources to complete the expenses part of FIA disclosures for our more than 400 employees each year. VCC will look into changing the current reporting structure to extract information to include different GL accounts for completeness.

We also understand that this recommendation is particularly associated with the purchasing cards expenses reporting in FIA disclosures. VCC attempts to limit the number of credit cards issued to employees for internal control purposes, but by adopting this approach, the department card is used to support department activities. This results in a labour-intensive approach to identify the actual user of expense. VCC recognizes there might be the potential for a minor misstatement in reporting expenses for all employees. VCC deems this risk to be low.

RECOMMENDATION 2: We recommend that VCC compare FIA and PSEA disclosure calculations to identify any potential errors or omissions early in the process.

RECOMMENDATION 2 RESPONSE: VCC accepts this recommendation. The PSEA disclosure is generally due in mid-to-late May. The FIA report is due on September 30 each year. This can be challenging to coordinate because the timing gap of the disclosure deadlines is large as well as the two different accounting methods used for the FIA and PSEA disclosures. The PSEA disclosure would have been completed before the work of the FIA reporting begins. VCC will look to implement a standard practice of reconciling any potential errors or omissions.

RECOMMENDATION 3: We recommend that VCC document its approach to preparing FIA and PSEA disclosures and develop guidance and procedures for staff.

RECOMMENDATION 3 RESPONSE: VCC agrees that the documented FIA and PSEA disclosure guidance and procedures for staff will provide clearer guidelines to staff. VCC has used the guidelines outlined in the PSEC Disclosure Guidelines and the FIA Guidance Package to prepare the disclosures. VCC will formalize its internal guidance and procedures for both FIA and PSEA disclosures for staff to follow.

RECOMMENDATION 4: We recommend that VCC require supervisors to confirm in writing that they have reviewed the support for draft FIA and PSEA disclosures before submitting them for board approval.

RECOMMENDATION 4 RESPONSE: VCC accepts this recommendation and recognizes that a confirmation in writing by supervisors should be implemented to complete the reporting. For both the FIA and PSEA Disclosures, the reviews and approvals have been done through emails. There are numerous emails exchanged to confirm or ask questions about the amounts and the nature of other compensation. For FIA, supervisors review the checklist to ensure there is no omission in the report.

VCC is introducing new processes to ensure that supervisors sign and date the checklist for both the FIA and PSEA Disclosure as proof of written approval and will keep copies for future reference.

APPENDIX B: AUDIT DETAILS

Complete and accurate executive compensation disclosures under FIA and PSEA

Complete disclosures

1.1 VCC disclosures of senior executive remuneration and expenses are complete under the FIA.

VCC disclosures of senior executive compensation disclosures are complete under the PSEA.

Accurate disclosures

1.2 VCC disclosures of senior executive remuneration and expenses are accurate under the FIA.

VCC disclosures of senior executive compensation disclosures are accurate under the PSEA.

Board approval and compliance with public reporting requirements

Board approval

2.1 VCC board reviews and approves the FIA senior executive remuneration and expense disclosures, as required by government reporting requirements.

VCC board reviews and approves the PSEA executive compensation disclosures, as required by government reporting requirements.

Public reporting

2.2 FIA senior executive remuneration and expense disclosures are in the required format and include notes as required.

PSEA senior executive compensation disclosures are in the required format and include notes as required.

2.3 FIA senior executive remuneration and expense disclosures have been made available for public review, as required by government public reporting requirements.

PSEA senior executive compensation disclosures have been made available for public review, as required by government public reporting requirements.

APPENDIX C: FIA AND PSEA REPORTING REQUIREMENTS

Disclosure requirements*	<i>Financial Information Act, regulation and guidance</i>	<i>Public Sector Employers Act, policy, and guidance</i>
Due date and means for public availability	Seven months after fiscal year end and made available at place of business (posting on website optional)	Within six months of fiscal year end (timed with release of government's Public Accounts) and made available at both place of business and on website
Individuals to include in disclosures	<ul style="list-style-type: none"> ▪ Board members ▪ All employees who earned more than \$75,000 in cash compensation 	Chief executive officer and top four executives earning \$125,000 (or more) annual base salary and are who members of organization's decision-making team
Remuneration/compensation to disclose	Total paid remuneration (on a cash basis)	Base salary (or maximum achievable salary) paid and accrued
Other remuneration/compensation: <ul style="list-style-type: none"> ▪ Severance/salary continuance 	FIA compliance checklist - Section 6(7)(a) & (b): Statement of severance agreements	Included
Holdback or bonus (any form of incentive or performance-based lump-sum payment)	Bonus included as part of remuneration, if paid	Included
Pension contributions: <ul style="list-style-type: none"> ▪ Employer's pension contributions ▪ If organization paid an employee's share of pension contributions ▪ RRSP contributions on behalf of employee ▪ Contributions made on behalf of employee as a result of membership in Municipal Pension Plan, College Pension Plan, Teachers' Pension Plan, or Public Service Pension Plan ▪ Current service costs for Supplementary Retirement arrangements 	Taxable benefits included as remuneration	Included
Statutory and health benefits: <ul style="list-style-type: none"> ▪ Employment Insurance premiums ▪ Canada Pension Plan premiums ▪ Workers compensation premiums ▪ Extended health and dental premiums, including health spending accounts ▪ Group life and accidental death and dismemberment benefits ▪ Long-term disability benefits ▪ Medical Service Plan premiums ▪ Other life insurance policy 	FIA compliance checklist – Section 6(6): Employer portion EI and CPP as supplier payment	Included

Disclosure requirements*	<i>Financial Information Act, regulation and guidance</i>	<i>Public Sector Employers Act, policy, and guidance</i>
Other benefits/perquisites/ allowances: <ul style="list-style-type: none"> ▪ Paid leave (such as administrative, special and sabbatical leaves not required for the position) ▪ Vacation payout ▪ Sick leave payout ▪ Retirement allowance ▪ Long-service recognition allowance ▪ Vehicle/transportation allowance ▪ Paid parking ▪ Professional dues or fees ▪ Any other property or personal benefit provided 	Included under remuneration: <ul style="list-style-type: none"> ▪ Paid leave ▪ Vacation payout ▪ Sick leave payout ▪ Retirement allowance ▪ Long-service recognition allowance Included under expenses: <ul style="list-style-type: none"> ▪ Vehicle/transportation allowance ▪ Paid parking ▪ Professional dues or fees 	Included if an identified benefit/perquisite/allowance
Expenses: <ul style="list-style-type: none"> ▪ Travel expenses ▪ Memberships ▪ Tuition ▪ Relocation ▪ Vehicle leases ▪ Extraordinary hiring expenses ▪ Registration fees and similar amounts paid directly to an employee or to a third party on behalf of the employee and not included in remuneration 	Included	Included if an identified benefit/perquisite/allowance

*This list is not exhaustive. It is intended to be illustrative of the types of compensation and expenses required to be disclosed.



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