

Chapter 3

Animikii Ozoson Child and Family Services Agency

First Nations of Southern Manitoba Child and Family
Services Authority

Department of Family Services and Consumer Affairs

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Main points

What we examined

On October 24, 2005, Animikii Ozoson Child and Family Services Agency (Agency) was mandated by the First Nations of Southern Manitoba Child and Family Services Authority (Authority), for the purpose of providing child and family services under *The Child and Family Services Act* and *The Adoption Act* to persons for whom the Authority is responsible. The Agency is unique in that it provides culturally appropriate services in Winnipeg for mostly aboriginal families and children who have cultural ties and affiliations to the First Nations of Ontario.

We examined financial accounting processes and controls of the Agency, and senior management and Board compensation and expenses. Our audit also included a review of governance practices and an assessment of the Agency's compliance with its funding agreement with the Authority. We did not audit the quality of child care provided by the Agency.

Why it matters

The provision of child and family service programs across Manitoba is a critical and demanding responsibility, and there is a significant annual cost to provide these programs. According to the Family Services and Consumer Affairs Annual Report, funding provided to the Authorities and mandated agencies, was in excess of \$250 million for the year ended March 31, 2010. Also, since 2003, when *The Child and Family Services Authorities Act* was proclaimed, there has been a major devolution of authority and responsibility to the Authorities, including the responsibility to mandate, fund, and monitor agencies.

What we found

The Agency has incurred operating deficits over the past several years and has an accumulated deficit in excess of \$450,000. They have retained funds in excess of \$3.4 million which are owing to the Province, to maintain its cash flow. Since its mandate in 2005, the Agency has expressed concerns to the Authority that the operational funding is not adequate. This funding model has now been revised.

Our audit did not include a full analysis of the causes of the deficits nor an assessment of the adequacy of the revised funding model to address shortfalls and cash flow needs. However, we found several areas that must be addressed to provide for ongoing monitoring and control of the Agency and to protect against the risk of financial irregularities.

Governance practices at the Agency need to be strengthened, including financial oversight. Board members expressed concerns about their ability to recruit new members and the lack of financial expertise on the Board. Both are critical to ensure proper control and monitoring of the Agency.

We examined the internal controls around the preparation of bank reconciliations and the processing of payments. A number of internal control weaknesses were discovered and are described in this report. It is important to note that although these weaknesses appear to be occasional exceptions, they show a lack of segregation of duties which means an irregularity could take place and be covered up by the same individual. While the internal control environment has weaknesses and exposes the Agency to unnecessary risk, we did not find any examples of inappropriate transactions. Also, the Agency does not have a conflict of interest policy, which is a requirement of the funding agreement between the Agency and the Authority. We found examples of conflicts of interest which such a policy should address. Policies were also missing about the types of expenses that are allowed for Board members and staff, Board compensation and employee advances.

While our original objectives did not include the examination of foster home licenses and places of safety, concerns came to our attention and we extended our work on those areas. We found that foster homes were not consistently reviewed and re-licensed annually and that the Child and Family Service Information System (CFSIS) was not accurate concerning foster home licenses and children in care. Similar issues were reported in our 2006 Report entitled *Audit of the Child and Family Services Division Pre-Devolution Child in Care Processes and Practices* and we would have expected these areas to have been remedied within Agencies.

Background

Legislation

In 2000, in response to recommendations made in the Aboriginal Justice Inquiry – Child Welfare Initiative, a major restructuring of the child and family service system began in Manitoba. In 2003, *The Child and Family Services Authorities Act* (Act) was proclaimed. The Act created four Child and Family Services Authorities – the First Nations of Southern Manitoba Child and Family Services Authority, the First Nations of Northern Manitoba Child and Family Services Authority, the Métis Child and Family Services Authority, and the General Child and Family Services Authority. The Act set out the board appointment process, which enables the Assembly of Manitoba Chiefs Secretariat Inc. on the recommendation of the Southern First Nations members of the Assembly, the Manitoba Keewatinow Inc., the Manitoba Métis Federation Inc., and the Minister to appoint the board members to these respective Authorities.

Prior to the creation of the Authorities, child and family services were mainly provided by a number of mandated agencies funded by, and responsible to, the Department of Family Services and Housing (now the Department of Family Services and Consumer Affairs). The Act provided for a major devolution of authority and responsibility to the Authorities, including the responsibility to mandate, fund, and monitor agencies. The mandated agencies now report to the four Authorities. The Act also devolved many of the duties of the Director of Child and Family Services to the Authorities.

Despite the devolution of responsibilities, given that the Manitoba Legislature proclaimed the Act, the Province retains overall responsibility for ensuring that appropriate outcomes are achieved.

Funding

Manitoba Family Services and Consumer Affairs (Department) is the sole funder of the Authorities. Funding is provided to the Authorities through Contribution Agreements outlining conditions under which the funding is provided.

Department funding is provided to ensure each Authority is able to operate and carry out its responsibilities and to ensure the requirements of its mandated agencies are met.

Under a proposed harmonized funding model (between the Provincial and Federal Governments) First Nation mandated agencies that currently receive federal funding will be funded for key core positions jointly by the Provincial and Federal Governments. Agency core funding will be provided utilizing a 60 per cent/40 per cent provincial/federal split. This is based on the breakdown of provincial/

federal children in care for those agencies at the time of model development. For all other mandated agencies, including the Agency, the Province remains the sole funder. In all cases, funding levels are expected to increase.

Child maintenance costs incurred by mandated agencies are billed to the funder (either the Department and/or the Federal Government) and the agencies are reimbursed for eligible costs. The responsibility for managing child maintenance has not yet been devolved to the Authorities.

Animikii Ozoson Child and Family Services Agency

Animikii Ozoson Inc. was incorporated on February 3, 2005 under the laws governing corporations in Manitoba and was given a province-wide mandate as Animikii Ozoson Child and Family Services Agency (Agency) on October 24, 2005 by the First Nations of Southern Manitoba Child and Family Services Authority (Authority). The Agency is unique in that it provides culturally appropriate services in Winnipeg for mostly aboriginal families and children who have cultural ties and affiliations to the First Nations of Ontario.

In October 2005, 234 cases were transferred to the Agency, comprised mostly of families and children generally affiliated with First Nations/communities in Northwestern Ontario. The transferred cases also included other out-of-province and Manitoba cases (aboriginal and non-aboriginal) that were not affiliated with Manitoba First Nations Child and Family Services Agencies and where the families chose the Southern Authority for culturally appropriate service.

Since the Agency provides services to families and children off reserve it does not receive any federal funding; it is funded by the Department only.

Audit objectives and scope

Our initial audit objectives were as follows:

Governance (Section 2)

- To review board governance practices of the Agency's Board of Directors.

Expenditures (Section 3)

- To document and assess financial accounting processes and controls
- To examine financial and human resource policies in place
- To examine senior management compensation and expenses
- To examine Agency Board of Director compensation and expenses.

Compliance with Funding Agreement (Section 6)

- To determine if the Agency is in compliance with the key terms and conditions of its funding agreement with the Authority.

In addition to our initial audit objectives, we decided to examine the financial operating results of the Agency (Section 1), Foster Home Licenses in place and Places of Safety (Section 4), and a program referred to as Thunderbird Nest Children and Family Centre (Section 5). These are matters which came to our attention during the course of the audit.

The audit primarily covered the two year period from April 1, 2009 to March 31, 2011 and was conducted between May 2011 and October 2011. We examined available Agency and Authority documentation and correspondence and we met with the Agency's Board of Directors and senior staff of the Agency and Authority.

Audit findings and recommendations

1. Operating deficits/funding

1.1 The Agency incurred a significant accumulated operating deficit over the last 5 years

As discussed in the Background section, the Agency receives its operational funding from the Authority. Child maintenance costs incurred by the Agency are billed to the Department and the Agency is reimbursed for eligible costs.

Table 1 is a summary of the Agency's revenues and expenditures, and net assets for the years ended March 31, 2007 to March 31, 2011. Over this 5 year period the Agency has incurred net operating losses amounting to \$1,116,564 (operating surplus/deficit before maintenance).

	2006/07	2007/08	2008/09	Restated 2009/10	Unaudited 2010/11
Operating Revenue	\$ 1,066,454	\$ 1,674,053	\$ 2,062,487	\$ 1,939,823	\$ 2,770,069
Operating Expenses	999,893	1,675,210	2,513,623	2,601,687	2,839,037
Operating Surplus/ (Deficit) before Maintenance	66,561	(1,157)	(451,136)	(661,864)	(68,968)
Maintenance Revenue	3,853,789	4,265,047	5,924,691	7,953,990	8,700,951
Maintenance Expenses	3,512,086	4,070,519	5,871,699	7,632,177	8,921,436
Maintenance Surplus/ (Deficit)	341,703	194,528	52,992	321,813	(220,485)
Deficiency of Revenue over Expenses	408,264	193,371	(398,144)	(340,051)	(289,453)
(Deficit) Net Assets, beginning of the year	89,879	498,143	691,514	176,808	(163,243)
(Deficit) Net Assets, end of the year	\$ 498,143	\$ 691,514	\$ 293,370	\$ (163,243)	\$ (452,696)

Source: Agency's audited financial statements, draft financial statements for 2010/11

According to the Agency's draft financial statements as at March 31, 2011, the Agency's Net Assets were in a significant deficit position. Also, Agency documentation we examined states the Agency has kept Children's Special Allowances (CSA). Child and Family Services agencies, as guardians of children in care, apply for and receive these federal CSA benefits. Manitoba reimburses agencies for the costs of child maintenance, and requires agencies to remit these CSA benefits to the Province.

The Agency has not remitted any CSA dollars received. The Agency used these dollars to maintain cash flow and to cover some operating costs. It owes the Province in excess of \$3.4 million, according to the draft financial statements as at March 31, 2011. In January 2011, the Department wrote a letter to the Agency and the Authority requesting a meeting to set a repayment schedule. At this time, an agreement for the repayment of these funds has not been finalized.

When we asked senior management about the reasons for the operating deficits they stated the staff positions being funded were well below the actual number of Agency staff and that the number of staff had to be increased due to the increase in children in care but funding levels are not keeping up. However, they were not able to provide us with details of how the annual operating funding was calculated by the Authority, such as which specific positions were included in the funding. They also referred to the 2006 Report Co-Chaired by the Children's Advocate, Manitoba Ombudsman, and the Executive Director of Tikinagan CFS titled Strengthen the Commitment an External Review of the Child Welfare System. The report stated that the Agency did not receive adequate funding when it was created due to the loss of economies of scale, specifically for its executive. It recommended that the Agency be reviewed to determine an appropriate level of funding to allow it to operate with a management structure that does not require that funding for workers is reduced.

In meetings with senior management we were told that officials of the Authority advised them not to finalize their March 31, 2011 audit until the proposed new funding model was approved. In August 2011, the Authority advised the Agency that based on the new funding model the Agency would be receiving an additional amount of approximately \$691,000 for agency core/protection funding. This amount is reflected in the March 31, 2011 operating revenue amount in Table 1 above. The additional funding for the 2010/11 fiscal year is for one-half of the year only. Even with this additional funding the Agency still incurred an operating deficit of \$68,968 for 2010/11, however the new funding model will be in effect for the entire 2011/12 fiscal year.

Recommendation 1: We recommend that the Agency finalize the repayment schedule for the CSA funds owing to the Province.

Recommendation 2: We recommend that the Authority provide the Agency with a detailed breakdown of its operating funding.

Recommendation 3: We recommend that the Authority, in collaboration with the Agency, review the impact of the new funding model assumptions on the Agency and ensure that the funding inequities have been resolved.

2. Governance

As one objective of our audit, we examined the governance practices of the Agency's Board of Directors (the Board) from April 1, 2009 to March 31, 2011. Our work consisted of a review of the Agency's By-laws, meeting minutes and Agency policies and procedures. We also met with current members of the Board and Agency staff.

According to the Agency's By-law, the Agency may have a minimum of 3 and a maximum of 7 Directors. During our period of review, there were 4 individuals on the Board. The By-law states that the Board shall meet at least quarterly and unless required, no meetings will be held in July or August. There is a provision in the By-law allowing for special meetings of the Board to be called at any time by any member of the Board or by the Executive Director.

In conducting this section of the audit, we examined the Board's progress to implement what we consider to be key governance practices of a board.

The following governance practices have been fully implemented or are in the process of being implemented by the Agency:

- The Agency has vision and mission statements which are included in its Annual Reports along with other related matters such as the core values and service challenges of the Agency
- The Board has recently approved a long range strategic plan for the Agency. This plan has been forwarded to the Authority for approval
- The Board holds an Annual General Meeting where it approves and accepts the Annual Report and appoints auditors for the following year. The Annual Report includes audited financial statements
- The Board conducts performance evaluations of its Executive Director
- The Board is in the process of conducting a Board evaluation.

During our audit, we also identified a number of areas where governance practices of the Board could be improved. These areas are discussed below.

2.1 Lack of financial oversight by the Board

In another section of this report we discussed the operating deficits the Agency has incurred and the significant accumulated deficit of the Agency as at March 31, 2011. As a result, it is important that the Board provides an appropriate level of financial oversight over the financial operations of the Agency.

Board of Directors Executive Committee

Effective October 1, 2005, the Board approved terms of reference for the Board of Directors Executive Committee (Committee). Some of the responsibilities of the

Committee, as outlined in the terms of reference, were:

- To fulfill the role of a finance committee and review the detailed financial reports of the Agency, oversee the audit process and provide a summary report for the full Board
- To evaluate the work performance of the Executive Director
- To review and approve travel, meals, accommodations, and other expense claims submitted by the Executive Director.

The initial membership of the Committee was to include the 3 initial Board members. Subsequently, the composition of the Committee was to include the 4 officers of the Board (Chairperson, Vice-Chairperson, Secretary, and Treasurer) and 1 other member appointed by the Board.

Agency staff told us the Committee was started but because of the low number of Board members it never really got going. Unfortunately, as discussed in the following sub-sections, the financial oversight duties of the Committee are not being done in most instances.

Operating budget

From our review of Board minutes there was no documentation to indicate that the Board reviewed and approved the operating budget for 2009/10. Further, there was no documented discussion in Board minutes of the potential for a significant operating deficit for the year until the January 28, 2010 Board meeting when the fiscal year was almost over. At this meeting, it was discussed that there would be an operating deficit of approximately \$133,000 and that all expenditures, other than for children in care, must stop now. The actual operating deficit for the year ended March 31, 2010 was \$661,864.

The 2010/11 operating budget was not approved until November 2010 when more than half of the year was already over.

The Board should be more involved in the operating budget process and approve the budgets on a timely basis.

Audit oversight

Our review of Board minutes showed that the Annual Report (which includes the Agency's Financial Statements and Auditor's Report) is being approved at the Annual General Meeting. However, there was no evidence that the Board met with the auditors at the beginning of the audit to discuss their audit plans or at the conclusion of the audit to discuss the audit results. Audit oversight duties (Audit Committee duties) are an important part of a board's financial oversight responsibility.

Approval of Executive Director's expenses

From discussions with Agency staff and our audit tests we determined that the Board does not review and approve the Executive Director's expenses. The review and approval of the Executive Director's expenses is another important part of a board's financial oversight responsibility.

2.2 Board recruitment issues/lack of financial expertise on the Board

Based on our interviews with Board members, a common issue raised was the need to increase the number of Board members and that they are having difficulties recruiting new members. With only four members on the Board, current members voiced concerns on the difficulties around voting and arranging meeting times while attempting to maintain a quorum.

Most of the members said the Board lacked financial expertise. They told us that a previous Board member, who passed away in 2010, did have the necessary financial expertise and would ask questions related to the Agency's finances.

Agency staff also had concerns with the number of Board members and the lack of financial expertise on the Board.

2.3 Minute items requiring action not being followed-up

During our review of the Meeting minutes, we noted several instances where an action was required on a certain issue, but we could not find any indication afterwards that the issue was followed-up. These items included:

- A recommendation to re-establish the finance committee (February 20, 2009)
- The need for a cost benefit analysis to be completed for the Pedro Lake Centre (February 20, 2009) – see Section 5
- A suggestion for the Board to help develop a finance spending policy (August 26, 2009)
- A note to begin developing a document outlining the Agency's funding needs and the fact that they are underfunded (November 24, 2009).

Agency staff told us none of the above items has been completed at this time.

Minute items requiring action should be documented and recorded as an item for follow up in subsequent Meeting minutes until the required action has been completed or the Board approves that the item should be removed.

Recommendation 4: We recommend that the Board review in detail and approve the Agency's annual operating budget on a timely basis.

Recommendation 5: We recommend that the Board meet with the external auditors at the beginning of the audit to discuss the Audit Plan and at the end of the audit to discuss audit results and any management letter recommendations.

Recommendation 6: We recommend that the Board review and approve the Executive Director's expenses, and any other benefits paid to or on behalf of the Executive Director.

Recommendation 7: We recommend that the Agency develop a plan to recruit Board members with financial expertise.

Recommendation 8: We recommend that the Board track actions that need to be completed. These items should be documented in subsequent Meeting minutes until the required action has been completed or the Board approves that the matter should be removed.

3. Expenditures

3.1 Internal control environment

We examined the internal controls around the preparation of bank reconciliations and the processing of payments. A number of internal control weaknesses were discovered and they are presented below. It is important to note that although these weaknesses appear to be occasional exceptions they show a lack of segregation of duties in the Finance department meaning there is a risk that an individual could initiate an inappropriate transaction without it being detected.

Of specific concern is the fact that the Director of Finance is currently responsible for signing cheques, preparing and approving cheque requisitions, receiving bank statements, and completing the bank reconciliation. Ideally, these duties should be separated so that the risk for fraud and cover-up is reduced. If segregation of duties is not possible, then alternative controls (such as checks and reviews by individuals other than the preparer) should be implemented.

The control environment is supported by a manual accounting system with paper-based files and electronic spreadsheets. This increases the chance of human error and makes it very time consuming to prepare financial reports. A commercial accounting package has been purchased but is not in full use yet.

While the internal control environment has weaknesses and exposes the Agency to unnecessary risk, we did not find any examples of inappropriate transactions.

Our specific findings are as follows:

3.1.1 Bank reconciliations do not include the date the reconciliation was prepared

In our review of the bank reconciliations, we noted that bank reconciliations were not dated. As such, it was not possible to see whether the reconciliations were performed in a timely manner. Such timeliness is important as it allows for potential errors to be caught, better management of outstanding cheques, and keeps the account accurate and up-to-date.

3.1.2 Bank reconciliations are not approved

It was noted that none of the bank reconciliations were reviewed and approved by the preparer's supervisor. This review and approval procedure is important, particularly when there is a lack of segregation of duties in an organization.

In reviewing the areas above, we noted that the majority of bank reconciliations were manually prepared using Excel, and they were not approved once completed. Given that the reconciliations are manually prepared, there is a risk of human error and without a review, potential errors could go undetected.

3.1.3 Conflict of interest with cheque signing

We found cheques that were written to a payee who also:

- Signed the cheque, or
- Signed the cheque and approved the cheque requisition.

The person receiving the cheque should not sign the cheque as well. It is also inappropriate for the person receiving the cheque to sign the cheque and approve the cheque requisition. Both situations are a conflict of interest which increases the risk that fraud could occur. The delegation of authority for cheque signing should list enough individuals to cover off cheque signing duties to avoid such conflicts.

3.1.4 Cheques require two signatures, but exceptions occurred

In our review of cheques, we came across 2 cheques which only had 1 approval signature. Although there was only 1 signature on these cheques they cleared the bank.

Recommendation 9: We recommend that bank reconciliations be prepared in a timely manner, and that they should be dated.

Recommendation 10: We recommend that bank reconciliations be checked and approved by an individual other than the preparer.

Recommendation 11: We recommend that the delegation of authority for cheque signing be created such that there are enough individuals to sign cheques so that the payee does not sign his/her own cheque.

3.2 Senior management expenses

3.2.1 Most credit card charges are not subject to a formal review and approval process

The Agency does not have an overall spending policy for senior management expenses

Some credit card charges did not have adequate supporting documentation

Most senior management expenses were incurred on Agency credit cards. Members of senior management made charges to 4 Agency credit cards during the period of our audit:

- Executive Director, (limit, \$5,000; raised to \$10,000 at December 3, 2010)
- Finance Director, (limit, \$20,000)
- Supervisors (2), (limit per credit card, \$1,000).

Other staff may request that credit card purchases be made and these are made with the Finance Director's credit card. The employee is required to prepare a memo in a standardized format, as to the nature and reason for the expenditure, and with the Finance Director's approval the charge is made.

Management acknowledged that sufficient appropriate documentation should support purchases and that receipts should be originals. The Finance Director is responsible for reconciling all statement items to supporting documentation and preparing and approving the cheque requisition for the payment of the monthly statement balance.

All credit card purchases were reviewed and reconciled by the Finance Director. However, the Finance Director's expenses were not reviewed and approved by the Executive Director, and as discussed in Section 2, the Executive Director's expenses were not reviewed and approved by the Board.

Table 2 summarizes expenses paid by the Agency for charges incurred with Agency credit cards and the extent of unsupported payments.

Table 2: Credit Card Expenses and Unsupported Payments

	2009/10	2010/11	Totals
All payments*	\$ 138,138	\$ 170,118	\$ 308,256
Unsupported payments	11,434	19,756	31,190
Percentage unsupported	8.3%	11.6%	10.1%

*Source: Agency financial records

The criteria we used to assess that a payment was not adequately supported were as follows:

- Payments were made on the basis of a credit card statement posting only
- Payments were made on the basis of a receipt or register tape only, with no explanation documented for the purpose of the expenditure
- Payments were made where the supporting documentation was lacking in sufficient detail to assess the appropriateness or purpose of the expense
- Payments were made on the basis of a requisition or memo only.

Other concerns noted, from our audit of credit card charges, include the following:

- There were expenditures for management meetings where in most cases meals were purchased (2009/10 - \$3,885; 2010/11 - \$5,078). For many of these payments (2009/10 - 38.9%; 2010/11 - 33.5%), there was inadequate support regarding the purpose of the meetings and/or the individuals attending
- On occasion, luncheons were brought in and provided to all staff where there was no purpose documented. We could not quantify the extent of these expenditures due to the lack of supporting detail.

The Agency does not have a policy regarding the use of credit cards, including what types of expenses are allowed and not allowed.

Recommendation 12: We recommend that the Agency implement an overall spending policy which provides direction to staff as to the types of expenses that are allowed and not allowed.

Recommendation 13: We recommend that the Agency implement a policy requiring all senior management expenses be appropriately reviewed and approved.

Recommendation 14: We recommend that the Agency require that all transactions have adequate support and that the purpose of the expense is documented.

3.3 Board member compensation and expenses

3.3.1 Board decisions on reimbursement of expenses are not formalized in a policy

The Board approves various expenses from time to time and documents their decisions in board minutes. These decisions are not brought forward to form a formal centralized policy for reimbursement.

A policy for Board compensation and expenses is an important tool in the management of agency funds. Areas that the policy should cover include (but are not limited to):

- Per diems
 - state the per diem rate
 - whether the per diem will only be paid for meetings or whether it can include payment for work performed on Agency matters
- Travel costs
 - state the cost per km rate
 - the circumstances under which travel costs will be reimbursed
- Meals
 - per diem vs actual expense billing
 - if based on per diem, state the per diem rate
- Other
 - details about the nature of the claim (date of board meeting or other business)
 - the date the policy was set
 - when the policy will be reviewed in the future
 - process for submitting claims (requirements, supporting documents, deadlines)

From our audit of Board member expenses we determined that per diem rates approved by the Board were used consistently.

Recommendation 15: We recommend that a policy for Board compensation and expenses be developed.

3.4 Employee advances

3.4.1 The Agency does not have a formal policy regarding advances to employees

The Agency has had a practice of providing loans to employees in the form of payroll/salary advances. Employees made formal written requests for an advance and they usually included a proposed schedule of repayment. Approval was given by a supervisor and final approval was granted by the Executive Director. Repayments were made by deduction from subsequent regular salary payments through the payroll service.

Table 3 summarizes advances to employees for 2009/10 and 2010/11. Four (4) employees were responsible for a large percent of the total advances (2009/10 – 84.2%; 2010/11 – 67.2%). All requests were approved by a supervisor and then final approval for payment was given by the Executive Director. However, in the review of support for several payments, they did not show final approval by the Executive Director. All payments were by cheque and approved for preparation by the Finance Director. In the case of the 4 employees, all amounts were repaid as of March 31, 2011.

Table 3: Employee Advances

	2009/10	2010/11	Totals
All advances	\$ 18,070	\$ 19,576	\$ 37,646
Accounts receivable from employees	1,554	3,090	

Source: Agency financial records and 2009/10 audited financial statements; 2010/11 Agency Draft financial statements

In the Board minutes of August 26, 2009, there was some discussion on the high number of advances being made to staff, that there was no policy covering advances, and that the Executive Director had to determine approval. The Executive Director was to discuss the matter with management and minimize the practice.

In addition, a package of supporting documentation for the Board meeting of September 23, 2009 included an email from the Executive Director to management, regarding the increase in advances, that effective immediately all requests were to be presented to the Executive Director for close review.

In meetings with senior management we were told there has been an attempt to reduce the number and amount of employee advances. However, there has been no policy formalized to date.

Recommendation 16: We recommend that the Agency implement a policy for employee advances which addresses whether employee advances will be allowed and if so, under what conditions.

4. Foster home licenses/Place of safety

While our original objectives did not include the examination of foster home licenses and places of safety, concerns came to our attention and we extended our work in those areas.

4.1 Foster home licenses

4.1.1 Foster homes were not consistently reviewed and re-licensed annually

CFSIS information, concerning foster home licenses and children in care, was not accurate

Foster home visits were not being conducted in accordance with Agency standards or were not documented as being done in the foster home file

According to *The Child and Family Services Act* (CFS Act) a person is not allowed to operate a foster home without a licence. Under the CFS Act, Manitoba Regulation 18/99, the *Foster Homes Licensing Regulation* (Regulation) was passed to regulate the licensing and operations of foster homes in Manitoba.

Some relevant sections of the Regulation include:

- Section 3(1) states that a person may apply to the licensing agency for a licence to operate a foster home (the Agency is a licensing agency)
- Section 3(2) sets out what information is to be included with an application such as a criminal record check and a child abuse registry check for the applicant, consent for a prior contact check for the applicant, and references for the applicant
- Section 3(4) requires a home inspection be conducted for each licence application
- Section 3(5) indicates a licence is valid for a one-year period
- Section 3(6) sets out the form of the licence and that each licence should state the address of the foster home, the date the licence expires, and designate the number and gender of the children who may be placed in the foster home
- Section 13(1) requires the licensing agency to conduct a foster home review, prior to the expiry of the licence, to determine if the licence should be renewed.

The Child and Family Services Information System (CFSIS) was developed by the Department as a case management system to be used by agencies for case recording, and for managing the provision of services to children and their families (including foster home placements), and as such, to provide the Director of Child and Family Services with province-wide information on child and family service cases. Concerning foster homes, updating CFSIS in a timely manner is important to ensure that an accurate inventory of foster homes and space availability exists province-wide.

The Agency provided us with a detailed listing of its licensed foster homes as at July 21, 2011 from their CFSIS database. We examined the listing to determine if licenses were current and on a sample basis agreed the information on the listing to the foster home files and determined if the required checks had been completed. Our sample size of 10 foster home files was determined based on 15% of the 62 files on the listing.

The following observations were noted from our tests:

- 35.5% (22 of 62) of the foster home licenses on the listing were expired
- For 3 of the 10 files examined the licence expiry date on the listing did not agree to the latest licence in the foster home file
- For 5 of the 10 files examined the number of children in care on the listing did not agree with the number of children in care on the latest licence in the foster home file
- For 5 of the 10 files examined foster home visits by the foster care social worker were not current according to the documentation included in the file. According to Agency staff these visits are to be done quarterly and documented in the file. This is consistent with monitoring standards included in the *Child and Family Services Standards Manual*
- For all of the 10 files examined the name and address on the listing agreed to the licence, there was evidence of a home inspection performed before the initial foster home licence was issued, and criminal record checks, child abuse registry checks and references were on file
- For all of the 10 files examined there was evidence of a foster home review for the latest licence on file, although as noted many of the licenses on the listing were not current.

When we asked Agency staff why the foster home licenses and foster home visits were not current they stated that staff shortages were the cause.

Recommendation 17: We recommend that the Agency schedule and conduct licensed foster home reviews prior to licence expiry dates.

Recommendation 18: We recommend that the Agency update CFSIS on a timely basis.

Recommendation 19: We recommend that the Agency conduct and document quarterly foster home visits consistent with Department standards.

4.2 Place of safety (POS)

4.2.1 POS home assessment reports were not consistently conducted within 6 months of the placement date

POS visits were not being conducted in accordance with Agency standards or were not documented as being done in the POS file

The CFS Act defines a POS as any place used for the emergency temporary care and protection of a child and includes treatment centres. Similar to the licensing requirements for a foster home, prior to the placement of a child in a POS, a criminal records check, a child abuse registry check, and a prior contact check must be done for everyone in the home that is over 18 years of age. The Placing Social Worker completes a reference form after a reference check has been done for the person who will be providing care. A physical requirements checklist is also completed based on an inspection of the residence.

According to the *Child and Family Services Standards Manual* – Standard 12 in Section 1.5.2, when an agency places a child in a family residence that is not licensed as a foster home, the placement cannot exceed 1 month unless the individual or couple applies for a foster home licence. If an application for a foster home licence is to be made, the worker provides the individual or couple a foster home licensing application form to complete and return within 1 month from the date the child was placed in the home. The worker must then complete an assessment of the foster home within 6 months from the placement date. If the individual or couple decides not to proceed or the home is not approved for licensing, a plan must be made to remove the child.

The Agency provided us with a detailed listing of its POSs as at July 21, 2011 from their CFSIS database. We examined the listing to determine if a home assessment had been made within 6 months of the placement date and on a sample basis agreed the information on the listing to the POS files and determined if the required checks had been completed. Our sample size of 5 POS files was determined based on 15% of the 27 files on the listing.

The following observations were noted from our tests:

- 40.7% (11 of 27) of the POS files on the listing did not have a home assessment report on file within 6 months of the placement date
- For 4 of the 5 files examined, POS visits by the foster care social worker were not current according to the documentation included in the file. According to Agency staff these visits are to be done quarterly and documented in the file. This is consistent with monitoring standards included in the *Child and Family Services Standards Manual*
- For all of the 5 files examined, the details on the listing agreed to the POS files and all the required checks had been completed and were on file.

When we asked Agency staff why the home assessment reports and POS visits were not current they stated that staff shortages were the cause.

Recommendation 20: We recommend that the Agency schedule and conduct POS home assessment reports within 6 months of the placement date consistent with Department standards.

Recommendation 21: We recommend that the Agency conduct and document quarterly POS visits consistent with Department standards.

5. Thunderbird Nest Children and Family Centre

In January 2008, the Agency entered into a lease agreement for a facility commonly known as Pedro Lake Lodge. The lodge is located approximately 2.5 hours from Winnipeg at Pedro Lake, Manitoba. The initial lease period is 5 years, commencing on January 1, 2008 to December 31, 2012. The lease may be renewed by the Agency for another 5 year period. The Agency is responsible for insurance, utilities, maintenance, and leasehold improvements. The Agency, at its own expense, may make major renovations to the premises, with the agreement of the landlord. The current monthly rent is \$2,200 plus GST.

The facility currently has 3 self contained units within the lodge. Entire families, including the parent(s), enter the Agency's Family Preservation Program (Program) at Thunderbird Nest. According to the Agency's 2009/10 Annual Report, the Program is to provide a life skills program which is supervised and supported by a qualified foster parent, support staff and mentors. Families entering the Program are normally families who have children in care and are at risk of them becoming more permanent if there is no intervention. The goal of the Program is to have the family remain in the Program for 1 year and then transitioned back into the city with many supports put in place that slowly diminish over the course of the year. Once the family is stable then the file is closed.

Our audit did not include a comprehensive review of the Program's operations. However, from our limited review of the Program, we did note some concerns which are discussed below.

5.1 No business plan for the program

Agency staff advised us that a Business Plan had not been prepared for the Program but that they are working on it. From our review of Board minutes from 2007 we did not see any documented discussion on the anticipated costs of the Program. At the February 20, 2009 Board meeting, it was noted that a cost benefit analysis needs to be completed for the Program. Agency staff advised us this analysis has not yet been prepared.

According to Agency records, since February 2008, it has spent approximately \$159,000 on renovations to the facility. Another \$27,000 has been spent by the Agency on furniture and equipment for the facility. These costs, plus the monthly rental payment of \$2,200, were included in the per diem rate calculation for the children in care at the Program and were recovered from the Department through child maintenance billings. For example, the billing for the period May 1 to May 15, 2009, for the 11 children in care at the Program amounted to \$13,729 which, in addition to other charges for special needs and respite workers incurred on behalf of the children, was billed to the Department.

A detailed business plan for a program of this size should have been prepared and discussed with the Board prior to the start of the Program.

5.2 The facility may not be properly licensed

Currently, the facility is licensed as a foster home. A separate foster home licence is issued for each of the 3 foster parents in the Program.

Some relevant sections of the *Foster Home Licensing Regulation* (Regulation) and our comments on each section are summarized below.

Section 2(a) states that the Regulation applies to a foster home where residential care and supervision of children is provided on a continuous basis by 1 or 2 persons who are not the parents of the children, in the home where those persons ordinarily reside. The foster parents of the Program do not reside in the facility. Further, Section 1.5.2 of the *Child and Family Services Standards Manual* provides an interpretation of "ordinarily reside" as follows – consistent with the intent of the regulation; a home should not be licensed unless a foster parent resides in the home for a minimum of 5 24-hour days per week. According to Agency staff, the foster parents of the Program are not consistently staying in the facility overnight.

Section 6(1) states that a licensing agency shall only issue 1 licence for 1 residential address. Also, Section 7(1) states that a foster home may be licensed to provide care for not more than 4 children. Although the facility has 3 self contained units within the lodge we are not sure whether the intent of the Regulation has been followed.

Agency staff told us they had not obtained legal advice regarding the licensing of the facility. Since the Agency is a licensing agency in relation to foster homes it issued the licenses for the facility. If the facility was licensed as a child care facility it would fall under Manitoba Regulation 17/99. Child care facility licenses are issued by the Director of Child and Family Services and each application for a license must include a written proposal outlining the program and goals of the facility, the residents to be served and the services to be provided, documentation on the need for the facility and a description of the client population to be served. Documentation must also be provided as to the qualifications and training of the applicant. The information required for a child care facility license is much more comprehensive than the information required for a foster home license.

5.3 No performance measures for the program

We were told by Agency staff there were no performance measures in place to assess whether the goals of the Program were being achieved. From our review of Board minutes we did not see any documented discussion of the Program's performance. Although, as mentioned above, it was discussed at a Board meeting that a cost benefit analysis needs to be done for the Program no such analysis has been completed to date.

The stated goal of the Program is to provide a life skills program which is supervised and supported by a qualified foster parent, support staff and mentors. Agency staff told us the qualifications for foster parents of the Program were the same as for all its other foster parents such as being able to provide care for children and provide references. The life skills training is provided by Agency staff.

It is important that the Agency develop performance measures and targets to evaluate the success of the Program and to report this information to the Board.

Recommendation 22: We recommend that the Agency confirm with Department officials that the facility is properly licensed.

Recommendation 23: We recommend that the Agency develop performance measures, including outcomes and targets, on which Program performance could be assessed.

6. Compliance with funding agreement

The Authority provides funding to the Agency through a Funding Agreement (Agreement) which outlines the terms and conditions under which the funding is provided. In conducting this section of the audit we examined the 2010/11 Agreement to determine if the Agency was complying with what we considered to be the key terms and conditions of the Agreement.

6.1 The Agency was in compliance with some key terms and conditions of the agreement, but not all

Based on our audit we determined that the Agency was forwarding the following information to the Authority:

- Annual operating budgets
- Audited financial statements and management letters
- Compensation disclosure statements
- Annual Reports.

The Agency does not forward interim financial statements to the Authority and has not developed a conflict of interest policy.

Section III of the Agency Reporting Requirements, which is an attachment to the Agreement, states that agencies shall submit interim financial statements for the periods ending June 30, August 31, and December 31 to the Authority. Agency staff told us they were not forwarding interim financial statements to the Authority.

Section 2.11.1 of the Agreement requires agencies to develop a conflict of interest policy which defines what constitutes a conflict of interest for its directors, officers and employees and that the policy, at a minimum, should meet or exceed the Province's Conflict of Interest Policy.

The Agency does have a draft conflict of interest policy dated August 2007. However, according to Agency staff the Board has not reviewed or approved the policy yet. Based on our review of the draft conflict of interest policy we determined that it did not meet or exceed the Province's Conflict of Interest Policy, as required by the Agreement.

During our audit we noted 3 occasions where a senior staff member may have been in a conflict of interest position. We will be discussing these matters with the Agency's Board and officials of the Southern Authority.

Recommendation 24: We recommend that the Agency forward interim financial statements to the Authority.

Recommendation 25: We recommend that the Agency develop a conflict of interest policy for its Board members and staff which meet the standards of the Province's Conflict of Interest Policy.

Summary of recommendations

Operating deficits/funding

1. We recommend that the Agency finalize the repayment schedule for the CSA funds owing to the Province.
2. We recommend that the Authority provide the Agency with a detailed breakdown of its operating funding.
3. We recommend that the Authority, in collaboration with the Agency, review the impact of the new funding model assumptions on the Agency and ensure that the funding inequities have been resolved.

Governance

4. We recommend that the Board review in detail and approve the Agency's annual operating budget on a timely basis.
5. We recommend that the Board meet with the external Auditors at the beginning of the audit to discuss the Audit Plan and at the end of the audit to discuss audit results and any management letter recommendations.
6. We recommend that the Board review and approve the Executive Director's expenses, and any other benefits paid to or on behalf of the Executive Director.
7. We recommend that the Agency develop a plan to recruit Board members with financial expertise.
8. We recommend that the Board track actions that need to be completed. These items should be documented in subsequent Meeting minutes until the required action has been completed or the Board approves that the matter should be removed.

Expenditures

9. We recommend that bank reconciliations be prepared in a timely manner, and that they should be dated.
10. We recommend that bank reconciliations be checked and approved by an individual other than the preparer.

11. We recommend that the delegation of authority for cheque signing be created such that there are enough individuals to sign cheques so that the payee does not sign his/her own cheque.
12. We recommend that the Agency implement an overall spending policy which provides direction to staff as to the types of expenses that are allowed and not allowed.
13. We recommend that the Agency implement a policy requiring all senior management expenses be appropriately reviewed and approved.
14. We recommend that the Agency require that all transactions have adequate support and that the purpose of the expense is documented.
15. We recommend that a policy for Board compensation and expenses be developed.
16. We recommend that the Agency implement a policy for employee advances which addresses whether employee advances will be allowed and if so, under what conditions.

Foster home licences/Place of safety

17. We recommend that the Agency schedule and conduct licensed foster home reviews prior to license expiry dates.
18. We recommend that the Agency update CFSIS on a timely basis.
19. We recommend that the Agency conduct and document quarterly foster home visits consistent with Department standards.
20. We recommend that the Agency schedule and conduct POS home assessment reports within 6 months of the placement date consistent with Department standards.
21. We recommend that the Agency conduct and document quarterly POS visits consistent with Department standards.

Thunderbird Nest Children and Family Centre

22. We recommend that the Agency confirm with Department officials that the facility is properly licensed.

23. We recommend that the Agency develop performance measures, including outcomes and targets, on which Program performance could be assessed.

Compliance with funding agreement

24. We recommend that the Agency forward interim financial statements to the Authority.
25. We recommend that the Agency develop a conflict of interest policy for its Board members and staff which meet the standards of the Province's Conflict of Interest Policy.

Response of officials

Animikii Ozoson Child and Family Services

We are in agreement with the recommendations outlined in the report and will address them within our new policies that are under development. New policies include Governance as well as all areas of operations. We also anticipate greater financial stability once the new funding formula takes affect providing it takes into account current case numbers and specialized service areas.

First Nations of Southern Manitoba Child and Family Services Authority (Southern Authority)

Agency Operating Deficits/Funding

The Agency had received all the details from the Winnipeg Resource Transfer Table (RTT) that provided a detailed breakdown of all staffing received with the transfers. Additions to funding from the original transfer was \$68,500 for Executive Core and \$367,500 for additional social workers noted as workload relief both starting in 2007-08 and provided annually with applicable cost of living adjustments. The Agency will now be funded under the new funding model which provides a detailed breakdown for all positions and amounts.

The new model review with the Agency is planned for quarterly meetings to report on progress and any issues with implementation.

Financial Systems at the Animikii Ozoson CFS

The Southern Authority has been concerned about the financial systems at the Agency. These include the following:

- The Board and the Executive Director rely heavily on the Finance Director for information. Given the manual systems used at the Agency, the Board and Executive Director, in our opinion, are not able to get timely and accurate information. For example, the production of financial statements on at least a quarterly basis was not occurring.
- Internal controls and segregation of duties are not adequate.
- The Southern Authority had earlier discussed with the Agency the use of credit cards and advances, and requested better controls be implemented.

As a result of these concerns, the Southern Authority began discussions with Price Waterhouse Cooper (PWC) in the summer of 2011, with a view to engaging them to complete an assessment of the Agency's financial systems. A letter of engagement was signed with PWC on October 14/2011 outlining the requirements of PWC to assess existing capacity, identify gaps in best practice, and provide

recommendations on how to implement best practices, including internal controls, segregation of duties, credit card usage, and conflict of interest policy. PWC is nearing the completion of the assessment and is completing policy manuals and recommendations. PWC will assist in the implementation process.

Steps have also been taken to train staff to use ACCPAC and to convert the Agency's manual systems to ACCPAC.

Funding Review, Accumulated Deficit, and CSA Recoveries

The implementation of the new funding model provides Animikii Ozoson with increased funding levels and will relieve the immediate funding pressures for the Agency. It will also assist the Agency in resolving its accumulated deficit.

Animikii Ozoson has not yet received any new funds under this funding model as the completion and review of its Business Plan remains in progress. As the Southern Authority worked with the Agency to complete the Agency's five year business plan, there was increasing concern about the reliability of the financial data the Agency was using, both for operations and for maintenance. This includes determining if the Agency was in a position to repay the \$3.4M to the Province of Manitoba. This is currently still being assessed and negotiated.

Board Governance

The Southern Authority will be meeting with the Animikii Ozoson CFS Board and Executive Director to follow up on the action plan required as a result of the review recommendations. The Southern Authority contracts with a governance coach and the plan will include the governance coach being assigned to assist the Agency Board in strengthening its governance practices. This, combined with the work being done by the PWC, will build capacity at the Board level.

Foster home licensing and Places of Safety and Contact

The Agency provided a listing of the status of its foster home licenses and places of safety as of March 31/2011 to the Southern Authority. The Quality Assurance review being undertaken at the Agency by the Southern Authority will examine the foster home files and licenses, as well as the places of safety. This will be prioritized.

The capacity of CFSIS to track foster homes has had limitations, and over the past year, changes have been made by the Province to improve this. The Southern Authority has been in discussion with its agencies about the use of the Foster Care Management (FCM) module in CFSIS and challenges that they face in using this, including connectivity. The plan includes sending a written directive to agencies in December 2011 requiring agencies to use the FCM for all foster homes

effective January 2/2012, as connectivity permits. Animikii Ozoson does not have a connectivity issue and so should be in full compliance with this directive.

The Province provides data on a monthly basis on agency compliance with the face to face visits with children in care. This data is taken from CFSIS and is provided to agencies. Agencies are expected to follow up on late visits. In our reviews with agencies, it appears that there is often a lag between the contact and the worker's entry of this on CFSIS. This will be examined more fully in the quality assurance review.

It should be noted that the new funding model for the Province does not include funds for staffing Alternate Care/Foster Home departments. This contributes to the ongoing issues of late renewals, outstanding licenses, and expired places of safety. The provision of Out of home care is a critical function of a CFS Agency and should be properly resourced.

Thunderbird Nest

The Southern Authority will follow up with the CFS Division to ensure the proper licensing for the Thunderbird Nest and to resolve funding/approval issues. It should be noted that maintenance billings (which would include Thunderbird Nest) go directly from the Agency to the CFS Division at the Province, and are reimbursed directly by the Division to the Agency.