
**Report on the BC Federation of Foster
Parent Associations**

Ministry of Children and Family Development

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Executive Summary

We have completed our audit of the BC Federation of Foster Parent Associations. The purpose of the audit was to provide the Ministry of Children and Family Development with assurance that the federation's organizational structure and financial management practices support:

- the delivery of foster parent services to all approved foster parents; and
- the provision of support and guidance to the ministry in building a strong foster environment for children/youth in care.

Organizational Structure

We concluded that significant changes to the federation's organizational structure are necessary to support the federation's effectiveness in delivering services, support and guidance to foster parents and the ministry. Principal among these changes are:

- the board taking the lead in direction-setting and strategic planning;
- the federation establishing formal processes to evaluate the effectiveness of its board, provincial office and regions;
- the federation maintaining sufficient direct contact with foster parents to ensure that its positions are representative of foster parents in general, and to determine foster parents' needs and their level of satisfaction with the federation's services;
- the federation establishing processes to provide assurance that their services are available consistently across the province;
- the federation holding the regions, which use approximately two-thirds of the ministry funding, accountable for their financial and operational performance; and
- reduction of dissension amongst board members, which has become a significant issue to the point that a lawsuit has been commenced.

Financial
Management and
Controls

At the provincial level, financial controls exist and are functioning, except that the executive director prepares and processes the federation's payrolls without independent review.

The federation's financial reports are incomplete as they exclude the financial operations of the regions. The regions provide quarterly financial reports, but the federation does not combine them with the provincial level reports.

The federation does not have processes to ensure that financial controls exist and are functioning at the regional level. Also, the assets in the control of the regions are not adequately protected, due to out of date asset records and lack of monitoring and insurance coverage.

In our opinion, the federation could reduce its annual travel costs by up to \$100,000 by reducing the numbers of regions, reducing the number of board members, and reducing the frequency of provincial and regional meetings.

We would like to thank the participating board members, management, staff and regional representatives of the BC Federation of Foster Parent Associations and staff of the Ministry of Children and Family Development for their assistance and co-operation during the course of this audit.

David J. Fairbotham
Executive Director
Internal Audit & Advisory Services

May 10, 2002

Introduction

The BC Federation of Foster Parent Associations (BCFFPA) is a non-profit society based in Vancouver. The organization was established for foster parents to serve and support each other in their work as caregivers. The only corporate entity is the provincial federation. Sixteen regional associations fall under the provincial federation's umbrella.

The Ministry of Children and Family Development (the ministry) provides approximately \$2 million in annual funding to BCFFPA to strengthen foster care by providing education, training and support services for foster parents.

Internal Audit & Advisory Services routinely performs audits of societies that hold contracts with the ministry. BCFFPA was selected based on concerns brought forward to the ministry. Although BCFFPA has addressed some of the concerns, the ministry would like additional assurance as to the federation's organizational structure and financial practices.

Purpose

The purpose of the audit was to provide the ministry with assurance that BCFFPA's organizational structure and financial management practices support:

- the delivery of foster parent services to all approved foster parents; and
- the provision of support and guidance to the ministry in building a strong foster environment for children/youth in care.

Audit Scope and Approach

The scope of the audit included an examination of the federation's:

- organizational structure to determine whether the structure supports:
 - the delivery of services to meet the needs of the ministry and BC foster parents;

- accountability to ministry and BC foster parents;
- financial management practices to determine whether:
 - financial controls exist and are functioning at both a regional and provincial level to ensure:
 - financial transactions, records and reports are complete, accurate, and authorized;
 - assets are adequately protected; and
 - travel, bonuses, and professional fees are reasonable and consistent with federation contracts, bylaws, policies, and procedures.

The audit focused primarily on current practices and the 2000/01 fiscal year, and involved:

- interviews with the federation's provincial office staff, regional representatives, and current and past board members, and with ministry staff; and
- examination of federation records, policies, bylaws and other documentation.

The scope of the audit did not include:

- an assessment of whether the federation is delivering the right services, delivering the services contracted for, or how well the federation is meeting its mandate; or
- review of specific allegations or issues currently under investigation by external government authorities.

Comments and Recommendations

1.0 Description of the Federation

1.1 The BCFFPA's Five Levels

The BCFFPA consists of the following five levels.

- a) The **board of directors**, which is comprised of eleven elected members, ten voting regional representatives, and a variable number of appointed members, currently three. A small number of non-voting area representatives also attend board meetings. The board is considered to be a working board, not advisory. The board's work is done primarily through committees.
- b) The **provincial office**, which takes its direction from the board. The office staff administer the federation's business, support the board committees and provide services in support of foster parents to the regions, areas, locals and foster parents.
- c) **Ten geographical regions.** The federation has divided the province geographically into ten regions, seven of which have regional councils. The other three regions each have two to four area councils. The area councils operate as if they were regional councils. The only distinction between regions and areas is that at board meetings each region has only one vote, so attending area representatives from each of the three regions agree amongst themselves as to how to vote on each issue. Throughout the rest of this report the term 'region' will be used to refer to both regions and areas. The core functions of the regional councils are:
 - to act as a channel of communication between the region's foster parents and both the board and the ministry, and
 - to be instrumental in delivering foster parent services.

- d) **Local associations.** Within each region, there are local associations, the function of which is to carry input from foster parents to their regional councils. At present, there are about sixty local associations in the province.
- e) **Foster parents.** The federation's stated mission is to represent all BC foster parents. All of the federation's services other than the provincial library are available to all foster parents, regardless of whether they are members of the federation. Approximately half of BC foster homes have one or more foster parents who are members. The benefits available exclusively to members are access to the provincial library, entitlement to enrol in a group extended health insurance program, and discounts at a number of retail stores. The organization is assessing the concept of mandatory membership.

1.2 Staffing

There are employed staff at two levels in the federation.

- The provincial office has five full-time staff. Another employee is hired when fund-raising permits. The board hires the executive director, who hires the others.
- Regions hire their own co-ordinators to fulfil various duties. Regions may hire more than one co-ordinator. There were twenty seven active co-ordinators in March 2001, some full-time and others part-time.

1.3 Contracts with the Ministry

There are approximately twenty contracts between the federation and the ministry. The ministry contracts with both the regions and the provincial board. Contracts between the ministry and regions are co-signed by the provincial board.

2.0 Organizational Structure and Service Delivery

Objective

To determine whether the federation's organizational structure supports the delivery of services to meet the needs of the ministry and BC foster parents.

Conclusion

The structure and practices of the federation are not sufficient to assure the following.

- The federation's services meet the needs of all BC foster parents. The federation does not have processes to measure the effectiveness of its services or to ensure that all contracted services are consistently and equitably available to all BC foster parents.
- The ministry receives support and guidance from the federation that reflects the interests of all BC foster parents. The federation does not maintain sufficient direct contact with foster parents to ensure that its positions are representative of foster parents in general.

2.1 Definition of Organizational Structure

For purposes of this report, organizational structure means the component groups of people involved in the organization, their roles, responsibilities and relationships, and the purposes, principles and policies that guide them.

2.2 Organizational Effectiveness and Service Delivery

We examined each of the federation's components – the board, the provincial office, and the regions – for indicators of capability to support the federation in meeting the service delivery needs of foster parents and the ministry. The federation has not developed processes to assess the relative effectiveness of those components. Our conclusions follow.

2.2.1 The Board

Board members spend many hours on federation business. According to the organization's 2000/01 annual report, that year they spent 19,110 hours collectively. In recent years, the board has worked with the ministry successfully to complete a number of initiatives to contribute to better foster parenting in BC. However, we concluded that the board could better support the federation in achieving its mandate by taking the following measures.

Taking a more active part in directing and assessing the federation's activities. The board should take primary responsibility for the following.

- Organizational planning, direction setting, and assessment of the ongoing relevance of the federation's objectives, strategies and services. At present, the executive director develops the organization's three-year plans, including their goals and objectives, and presents them to the board for approval.
- Critical overview of the operational activities of the regions and of the provincial office, assessing the organization's overall effectiveness, and seeking ways to improve it. The board does not presently have structured processes for these functions.

Increasing its focus on service delivery. The importance of the federation's foster parent services would be emphasized if the board required that:

- business plans included targets for services to be delivered for foster parents,
- it receive reports of the services provided by the entire organization, including the regions, and
- surveys of foster parents be conducted periodically to determine their needs and their level of satisfaction with the services provided.

Developing a process for assessing its own effectiveness. Tools are available for such self-assessments. A common tool is a survey of stakeholders, including board members, to determine how those involved and affected view the board's effectiveness.

Reducing its size. The size of the board varies, depending on the number of appointed members, but usually there are approximately 25 voting members. It takes much time to hear from all members on each issue during meetings before voting. Also, such a large group can become less cohesive than a smaller group, which can result in the emergence of opposing factions. This appears to have occurred increasingly in the past few years. We were told by several sources that dissension within the board has drawn the board's focus away from the federation's central purposes. Some claimed that a small group has effectively taken control of the board.

Reducing the number of committees. The board has at least thirteen committees. This large number of committees may reduce the organization's effectiveness by overly fragmenting the focus. Also, in the view of some, committees often take on, but do not fulfil, working responsibilities between their bi-monthly meetings.

A year ago, the federation arranged for an independent assessment of alternative organizational structures. That assessment did not proceed due to lack of funding. The ministry has recently asked the federation to consider what organizational structures and related responsibilities might best meet the needs of foster parents at the community, regional and provincial levels.

Recommendation

⁽¹⁾ **We recommend that the federation's board:**

- **take the lead in the federation's organizational direction setting, planning and setting of goals and objectives;**
- **develop and implement processes for periodic assessment of the operations of the regions, the provincial office and the board itself; and**
- **enhance the focus on delivery of foster parent services.**

For example, by:

- **setting measurable targets for service delivery;**
 - **developing ways for foster parents to communicate directly with the federation's provincial level; and**
 - **requiring reporting to the board and foster parents on the service activities of both the provincial office and the regions; and**
 - **consider reducing the numbers of voting board members and committees.**
-

Federation Response:

Our board has made a plan to respond to each point in this recommendation by:

- *creating a board committee for planning and setting organizational goals and objectives;*
- *developing tools for organizational assessment after researching available tools;*
- *charging the new planning committee with finding ways to enhance the focus on delivery of services to foster parents within six months; and*
- *passing a motion regarding reducing the numbers of voting board members and committees, and seeking comment from the federation's regions.*

2.2.2 The Provincial Office

The federation's provincial office provided all of the services required in its contract with the ministry. Assessment of how well those services were provided was not a part of this audit. The services provided by the provincial office were closely aligned with the services called for in each of:

- the constitution and bylaws,
- the organization's three-year business plan, and
- the provincial office's service contract with the ministry.

The provincial office maintained records and was able to report on the services that it provided, including numbers of workshops and attendees, Fosterline activity, and categorized counts of phone calls, faxes and mail pieces. However, the federation's service activity reports would be more meaningful to readers if those reports:

- included the service activities of the regions; and
- compared actual activities to planned service targets.

The organization's guiding documents do not state whether the provincial office's service delivery is meant to be proactive or reactive. The service delivery tends to be more reactive than proactive. The office did not promote the organization's services to foster parents, though the federation's web-site and the quarterly provincial office newsletter could readily be used for that.

Recommendation

- ⁽²⁾ **We recommend that the federation's board:**
- **require periodic reports of service activity that include both provincial office and regional activities as compared to plans;**
 - **develop a standard format for service activity reports which specifies what information is to be reported for each of the federation's services; and**
 - **give direction about whether availability of the federation's services should be more actively promoted.**
-

Federation Response:

Our board is implementing all elements of this recommendation by:

- *requiring quarterly reports of service delivery from the provincial office and the regions;*
- *developing a standard format for service delivery reports; and*
- *directing that promotion of current services begin immediately.*

2.2.3 The Regions

Of the total \$2 million funded by the ministry in 2000/01, approximately two-thirds was for the regions. A rough approximation drawn from a sample of the regions' financial reports is that, of the regions' contract funding, on average:

- 45% went to regional co-ordinators' salaries and benefits;
- 20% went to program expenses (education, training, support and information services for foster parents); and

- 35% was spent on the costs of administration and office premises. Administration costs include meeting costs, office supplies and costs of the regional councils and their provincial representatives. Not all regions incurred costs for office premises.

The regions were not required to plan or report on their service activities. They reported to a board committee at bi-monthly meetings and in the BCFFPA annual report, but no standard content for their reports was defined. Standard reports could include measures of service activities such as numbers of home visits or hours of foster parent support provided. Such reporting would enable the organization to quantify the regions' provision of services.

The federation does not have processes for:

- monitoring for consistency of service levels across the province; or
- ensuring the allocation of regional funding amongst regions was equitable. Our calculations showed there was wide variation amongst the regions in funding per foster home.

As a result, there is no assurance that a consistent level of foster parent services was available to all BC foster parents. This is compounded because the strength of regions, areas and locals tends to vary over time. Some regions were acknowledged to be struggling at present, while others were said to be strong and active.

The regions hire and manage their own co-ordinators. The federation provides a model job description, but regions are permitted to modify it. A board committee sets the relevant pay scale. Because it is not required that the provincial office be involved in the hiring and management, there is limited assurance of consistency of the selection process used, skills and abilities of those hired, or activities they perform. Further, the federation is exposed to increased risk of lawsuits for unjust dismissal, since the regions can also terminate their co-ordinators. In 2000/01, the federation incurred costs totalling approximately \$15,000 related to such a lawsuit.

In this section, and in later sections of this report, we have commented on significant differences in practices between the provincial office and the regions. We noted that the federation's roles and relationships have been such that the regions were not held accountable to either the board or the provincial office for their operational and financial performance. A common structure in a regionalized operation is to have one office assigned overall responsibility for administration of the organization. In the federation's case, that would mean authorizing the provincial office to take a central role in monitoring the regions' activities.

Recommendations

- (3) We recommend that the board and provincial office:**
- **integrate regional operations into the organization's planning, setting of goals and objectives, record-keeping and reporting; and**
 - **develop a plan to ensure equity of service availability for foster parents throughout BC. To do so, it will be necessary to work with the ministry to ensure their allocations of funding support that equity.**
- (4) We recommend that the federation:**
- **implement processes to ensure consistency of the selection process used for hiring regional co-ordinators, of the skills and abilities of those hired, and of the activities they perform; and**
 - **authorize the provincial office to hold the regions accountable for their operational and financial performance.**
-

Federation Responses:

- (3) Our board accepts this recommendation but considers itself unable to act on it due to the pending ministry transition to regional governance.*
- (4) Our board will act on the two points of this recommendation by reviewing our existing practices and:*
- *developing a screening tool to help ensure consistency in hiring regional co-ordinators; and*
 - *assigning a board committee to make recommendations about authorizing the provincial office to hold the regions accountable.*

2.3 Preparedness to Deal with Ministry Changes

The ministry has announced that:

- the ministry's budget is being reduced by approximately 23%;
- the current geographical division of the province into eleven ministry regions will become five regional authorities in 2004; and
- in 2004, service providers will contract with the regional authorities rather than with the current regional ministry representatives.

The ministry provides almost all of the organization's funding. As the ministry budget is reduced, so may be the organization's.

For several years, the organization's regional boundaries have been inconsistent with those of the ministry. This has been a cause of some difficulty to both the ministry and the federation. At times, the federation has considered changing its boundaries to coincide with the ministry's. As the ministry's change to five regional authorities occurs, there may be additional pressures on the federation to align with those changes. One effect of such a realignment would be a reduction in the size of the board, which is discussed under 2.2.1 above.

The organization is not well structured to respond to the potential impacts of these impending major changes in its funding ministry. The board of directors does not have a standing committee that deals with such broad, forward-looking issues as these. The need for such board functions is addressed in the recommendations under 2.2.1 above.

3.0 Accountability

Objective

To determine whether the federation's organizational structure supports accountability to the ministry and BC foster parents.

Conclusion

The federation's organizational structure does not assure accountability to the ministry and BC foster parents in some fundamental areas.

3.1 Definition of Accountability

The definition of accountability used for this report is "the organization's ability to report meaningfully to stakeholders on its performance towards fulfilling its mandate".

3.2 Strengths and Weaknesses Related to Accountability

To fulfil the basics of accountability, the federation would:

- have a set of clear, complete objectives, with measurable targets for each;
- maintain records of actual performance for comparison to targets; and
- report regularly on actual performance in comparison to targets, with commentary about corrective actions to be taken where targets were not met.

In the following sections, we comment on each of those points.

Objectives

The federation has a complete set of documentation for guidance, including constitution and bylaws, mission statement, goals and objectives, organization charts, annual budgets, policies and procedures, organizational handbook and board orientation manual, personnel policies, and code of ethics.

The organization's objectives are clearly stated and aligned with the ministry's intentions and initiatives for foster parents.

Though the federation set out numerous objectives in its business plan for 2001 to 2004, it did not define objectives for the following important areas.

- Recruitment of members.
- Growth in numbers of active local associations.
- Increase in the level of foster parents' satisfaction with the federation's services.
- Foster parent services to be provided by either the provincial office or the regions, such as numbers of workshops, numbers of attendees at workshops, number of home visits, and hours of direct support provided to foster parents. Therefore, there are no benchmarks against which actual services delivered can be compared.

Records

The federation maintained records of foster parents' services provided by the provincial office and the regions, such as numbers of home visits and workshops, hours of support provided, and numbers of provincial and regional newsletters produced.

Reporting

The federation did not fulfil its accountability to the ministry and to foster parents in some important areas of reporting:

- The federation did not report directly to foster parents on the organization's plans, objectives, operating activities, service provision or financial performance. The federation's web-site and quarterly newsletters that the provincial office sent out to all foster parents could have been used for that purpose at very little cost.
- The federation's financial reports excluded regional activities. The federation received financial reports from the regions, but did not prepare combined financial reports that included them.

- The federation's regions often did not spend their total annual contracted funding, resulting in annual surpluses. The federation did not report those surpluses to the ministry or foster parents. Over the years, those surpluses accumulated to substantial amounts. For example, provincial office staff said one region once accumulated surplus funds of approximately \$100,000. The federation's practices have not ensured the security of the assets in which those surpluses were invested.

On the other hand, some accountability was provided in that:

- Reporting to the ministry on activities of the provincial office was complete.
- The provincial office's financial statements were audited annually.
- The federation produced an annual report for 2000/01 which included reports from each region, each board committee and the provincial office. The report was available to all who attended the annual general meeting and to others on request. However, only a small percentage of foster parents attended the annual meeting or requested the annual report. The federation could post such reports on its web-site to make them available to many more foster parents.

Recommendation

⁽⁵⁾ **We recommend that the federation's board:**

- **develop organizational objectives aimed at:**
 - **increasing the level of BC foster parents' awareness, involvement, and satisfaction with the federation's services; and**
 - **improving communication and co-ordination amongst its locals, areas and regions;**
 - **ensure that the federation's operational and financial reports account for all of the federation's activities, including those of the regions; and**
 - **establish reporting processes which ensure that foster parents and the ministry are informed periodically about all of the federation's financial and operational activities.**
-

Federation Response:

We will discuss ways to increase foster parent awareness at our next annual general meeting. We will also survey foster parents and develop a plan for increasing awareness, involvement and satisfaction of foster parents. A board committee will be assigned to examine our existing reporting practices and recommend changes to the board.

4.0 Financial Management and Controls

Objective

To determine whether financial controls exist and are functioning at both the provincial and regional levels to ensure financial transactions, records and reports are complete, accurate, and authorized.

Conclusion

At the provincial level, financial controls exist and are functioning, except that the executive director prepares and processes the federation's payrolls without independent review.

The federation's financial reports are incomplete. They exclude the financial operations of the regions, which use approximately two-thirds of the federation's ministry funding. Regions handle their own accounting, which has weakened the federation's financial controls.

At the regional level, there is little assurance that financial controls exist and are functioning to ensure financial transactions, records and reports are complete, accurate and authorized.

Within the federation there are two levels of financial management - provincial and regional. The following subsections deal with each of those in turn.

4.1 Financial Reporting

Provincial financial reporting

The provincial office provides the board with financial reports at its bi-monthly meetings, and audited financial statements annually. As explained in the following subsection on regional financial reporting, those reports account for the financial operations of only the board and the provincial office; the regions' operations are excluded. The federation does not produce financial reports that account for all of its operations.

In our opinion, the federation's financial reports should account for all of the federation's activities, including those of the regions. Under the *Societies Act*, only the federation itself is a corporate entity. The regions do not have status as separate entities. Further, the federation's constitution and bylaws, policy manual, board of directors manual, and budgeting and bookkeeping manual all state that the regions are components of the federation and are to operate within the federation's bylaws and policy.

Categorization

Within the federation's provincial financial reports, expenses are categorized under such headings as executive committee, office, postage, and professional fees. With this system of categorization, the costs of each program or service are not discernible. For example, the total cost of workshops is not shown. A benefit of categorizing costs by service is that unit costs, such as cost per workshop, can be determined. Also, the financial reports do not segregate administrative costs from program expenses. When all administration costs are reported separately, the federation and other stakeholders have better information for assessing the federation's effectiveness.

Recommendation

⁽⁶⁾ **We recommend that the federation:**

- **produce financial reports that account for all of its operations, including those of the regions; and**
 - **consider changing its categorization and presentation of expenses to segregate administrative and program costs and to account for costs of each service.**
-

The federation did not respond to this recommendation

Regional financial reporting

As noted in the preceding subsection, the federation's financial reports account for only approximately one-third of the federation's ministry funding, because the ministry funding of the regions is excluded. The provincial office receives the regional funding, uses part of it to pay the regional co-ordinators and an administration fee, and transfers the remainder to the regions. In 2000/01, the regions received approximately \$700,000 in total. The regions are free to manage their funds, using as guidance the federation's budgeting and bookkeeping manual. The regions' administration is not monitored to ensure consistency of practices or compliance with federation policy. In our view, the provincial office should be empowered to monitor and direct the regions to help ensure that financial controls operate effectively. The provincial office requires the regions to submit financial reports quarterly, and withholds quarterly funding until they do so.

Independent Review

There is no independent review of the regions' financial reports, and the regions' recorded funding is not reconciled to the amounts the provincial office sent them. An independent review would provide the board with assurance that the reports are consistently prepared and reasonable. The provincial office could review each region's quarterly financial reports for:

- large differences from budgeted amounts;
- unexpected or unbudgeted expenditures which might be inappropriate to the federation's purposes;
- consistency of the region's reporting of ministry funding with the amounts the provincial office sent out;
- continuity of accumulated surplus from one period to the next; and
- extraordinarily large accumulated surpluses.

In our view, the provincial office's staff accountant should conduct such reviews.

Categorization

The federation does not require that the regions' reports categorize expenditures consistently with the provincial office's categorization system. Each region has developed its own categories of expenses. As a result, it would be difficult to combine the regions' financial reports with those of the provincial office. In our view, the federation should provide the regions with a standard financial reporting form which uses the same expense categories as the provincial office, and require its use.

Recommendation

- ⁽⁷⁾ **We recommend that the federation's board:**
- **direct the provincial office to monitor the regions' compliance with federation policy and appropriate administrative and financial practices;**
 - **implement a system of independent review of the regions' quarterly financial reports; and**
 - **require that the regions categorize their expenses using the provincial office's categorization system.**
-

The federation did not respond to this recommendation.

4.2 Financial Controls

4.2.1 Budgets

Within an organization, budgets can serve two important purposes:

- documenting planned revenues and expenditures; and
- providing a basis against which to monitor actual revenues and expenditures.

Provincial budgets

Prior to each fiscal year, the provincial office develops a budget of anticipated revenues and expenses of its own and the board's operations. Each year, the finance committee reviews the budget and presents it to the board for approval. When approved, a copy is sent to the ministry.

The provincial office's periodic financial reports compare actual revenues and expenditures to the budgeted amounts.

Regional budgets

According to the federation's budgeting and bookkeeping manual, regional treasurers are to prepare budgets at the beginning of each fiscal year. The regional council is to approve the budget and forward a copy to the provincial office for approval. We found that only two of the federation's sixteen regions submitted budgets to the provincial office for 2000/01. When budgets are not submitted and reviewed at the provincial level, there is a risk that the federation could be unaware if regions were planning to overspend or spend on areas unrelated to the federation's purposes. Also, regional budgets provide a basis against which to monitor actual regional revenues and expenditures.

Recommendation

⁽⁸⁾ **We recommend that the federation's board:**

- **require that each region submit a revenue and expense budget, using a consistent format, prior to the start of each fiscal year;**
 - **review the regions' proposed budgets and enquire into any questionable items; and**
 - **ensure that the regions submit periodic reports of actual revenues and expenses as compared to budget.**
-

The federation did not respond to this recommendation.

4.2.2 Internal Controls

Internal controls are an organization's policies, procedures and processes which ensure that financial records are authorized, complete and accurate. We did not conduct comprehensive reviews of the internal controls of either the provincial office or the regions.

Internal controls at the provincial office

Our limited review of internal controls at the provincial office identified no significant concerns other than those addressed elsewhere in this report.

Internal controls in the regions

Each region's finances are managed by a volunteer treasurer. When only one person is involved in managing an organization's finances, there are several inherent internal control risks. The federation places substantial reliance on the honesty and capability of the regional treasurers for managing the regions' funds appropriately and for completeness, accuracy and authorization of the regions' financial records and reports. One control that can help mitigate those internal control risks is an independent review of the regions' financial reports. That is addressed in section 4.1 above.

4.2.3 Payroll

Approximately 37% of the ministry's 2000/01 funding to the federation was applied to salaries and benefits of provincial office staff and regional co-ordinators. The payroll for all of those employees was prepared manually by the executive director. Salary levels of the regional co-ordinators were set by the board's personnel committee. The executive director's salary was set by the finance committee. The salary levels of all other provincial office staff were set by representatives of the personnel and finance committees. Federation policy does not specify which board committee is responsible for setting salary levels of the executive director and the provincial office staff.

The executive director said that provincial office staff salaries were compared to salary levels of similar organizations and were found to be somewhat lower. This is a good process to ensure appropriateness of salary levels, but it should be done, or at least reviewed, by the federation's personnel committee.

An organization exposes itself to risk of error or misappropriation when the same person authorizes, prepares and approves an expenditure, as is the case when the executive director prepares and processes the federation's payroll for provincial office staff. To mitigate that risk, the payroll preparation should be done by another provincial office employee, and the executive director should review each payroll before it is processed.

The executive director said that payroll preparation and processing uses approximately 6% of her time. In our view, this is not the best use of the executive director's time. The federation would likely benefit by using an external payroll processing service. The advantages would include the following.

- The executive director's payroll preparation time could be directed to other uses.
- There would be less risk of calculation error.
- Employees could be paid by direct deposit.

Several reliable payroll processing services are available for a relatively small cost. Provincial office staff said they had been considering use of an external payroll processing service.

Recommendation

⁽⁹⁾ **We recommend that the federation's board:**

- **establish policy specifying which board committee is responsible for setting salary levels of the executive director and provincial office staff;**
 - **ensure that a board committee conducts periodic comparative assessments of all federation salary levels for appropriateness;**
 - **require that the federation payroll be completed by provincial office staff and be reviewed by the executive director; and**
 - **consider use of an external payroll processing service.**
-

Federation Response:

Payrolls are to be completed by provincial office staff and reviewed by the executive director beginning immediately. Our board has assigned the other points in this recommendation to board committees.

4.3 Centralized Accounting

In October 2001, the federation's external auditor recommended that the federation centralize its accounting. We support that recommendation.

The form of centralization that we propose for the federation would operate as follows.

- Accounting for the provincial level revenues and expenses would not change.
- The provincial office would determine an imprest fund amount for each region, equivalent to approximately one month of the region's normal expenditures.
- The provincial office would continue to pay the salaries and benefits of the regional co-ordinators.
- At the time of transition, each region would transfer all of its funds in excess of its imprest fund amount to the provincial office. The transferred amounts could be recorded as separate reserves in each region's name. The federation, in consultation with the ministry, would determine how those funds could be used.
- Each region's treasurer would pay for the same expenses as under the past system. When the region's funds run low, the treasurer would note on each paid invoice the appropriate expense category, and submit the invoices to the provincial office for reimbursement.
- The provincial office staff would review the region's paid invoices for reasonableness and appropriateness of categorization, record the expenditures, and reimburse to the region the total of the submitted invoices, thus replenishing the region's imprest fund amount.
- The federation would produce periodic accounting reports by region and for the federation as a whole.
- The proceeds of each region's fundraising could be held for the region's use either by the region in a separate account, or by the provincial office in reserve for the region.

This form of centralized accounting would have several advantages for the federation, and resolve some of the control issues we noted in the preceding sections of this report.

- Financial reports could be produced for the federation as a whole.
- The regions would use the same expense categories as the provincial office.
- Provincial office staff would provide independent review of the regions' expenditures on a timely basis.
- The regions would retain a substantial level of autonomy over how they use their funding.
- All computers, office equipment and other capital assets could be centrally recorded, monitored, insured and depreciated.
- All annual surpluses would be accounted for.
- The use of surplus funds would be centralized, allowing for better investment opportunities.
- Carry forward of accumulated surpluses from year to year would be assured.
- Risk of misappropriation would be reduced.

Recommendation

⁽¹⁰⁾ **We recommend that the federation centralize its accounting function, and consider implementing an imprest fund system for the regions.**

The federation did not respond to this recommendation.

5.0 Safeguarding Assets

Objective

To determine whether financial controls exist and are functioning at both the provincial and regional levels to ensure assets are adequately protected.

Conclusion

Financial controls exist and are functioning to ensure that the federation's assets in the control of the provincial office are adequately protected.

The assets in the control of the regions are not adequately protected, due to incomplete records and lack of monitoring and insurance coverage.

5.1 Provincial Assets

The provincial level capital assets are computers and leasehold improvements which cost a total of approximately \$23,000 to March 31, 2001. Provincial office staff maintain a listing of all of those assets. The federation has adequate insurance to cover those assets.

At March 31, 2001 the other provincial level assets were cash, accounts receivable and prepaid expenses which exceeded the federation's current liabilities by approximately \$36,000.

5.2 Regional Assets

Capital Assets

In brief, the federation does not have records of all capital assets that have been acquired over the years by the regions, and those assets are not accounted for consistently or protected by insurance.

Some of the regional representatives we interviewed stated the regions had current lists of their capital assets. Others did not have current lists. The provincial office had compiled its list of regional assets from those regional lists.

Our review of a sample of regional financial statements and inventory lists indicated that the regions had few recorded capital assets. This would result at least in part because many regions had adopted an accounting policy of writing off assets in the year of purchase, which is inconsistent with both federation policy and generally accepted accounting principles. The federation's insurance policy does not cover the regions' capital assets.

As noted in section 4.3, if the federation were to centralize its accounting, the issues of insuring and maintaining records of the regions' capital assets would be simplified. In any case, the federation should develop up to date lists of the capital assets acquired by the regions in the past several years, and ensure that those assets can be accounted for.

Recommendation

⁽¹¹⁾ We recommend that the federation develop and maintain lists of capital assets acquired by the regions, periodically ensure their continued existence, and consider extending its insurance coverage to include those assets.

The federation did not respond to this recommendation.

Accumulated Surpluses

We calculated from the regions' financial statements as at March 31, 2001 that the regions reported accumulated surpluses totaling approximately \$293,000. That is approximately 38% of the total 2000/01 funding provided by the provincial office for the regions' management. Those surplus amounts were mostly held in the regions' bank accounts. Three regions had acquired short-term investments. The federation exposes itself to unnecessary risk of misappropriation by leaving large amounts in the hands of the regions. In fact, recently there have been two cases of allegations of misappropriation of regional funds. This risk would be eliminated if the federation centralized its accounting, as recommended at section 4.3 above. In addition, if these funds were held centrally by the provincial office, there would be better opportunity to earn interest from short-term investments.

Because the regions' past financial reports have not been monitored to ensure that accumulated surpluses are carried forward from year to year, there is limited assurance that the recorded regional surpluses are complete and accurate. There is a risk that a region's accumulated surplus at the end of a year, or when a new treasurer takes office, may not have been carried forward fully.

The federation's budgeting and bookkeeping manual states, "The ministry has a contractual arrangement with the BCFFPA and the regional councils. Surplus funds are the property of the contractor. If those funds are the result of a service which has not been provided, the ministry could ask for them to be returned or arrange for the service to be provided in the next fiscal year. If the surplus funds are the result of lower than expected expenses, higher than expected income, or prudent financial management, the ministry contracting authority would probably reduce the amount of the contract for the next fiscal year." Thus the accumulated surpluses held by the regions do not belong to the regions, other than monies raised through fund-raising initiatives.

The federation needs policy to deal with:

- how regions' past accumulated surpluses and future annual surpluses are to be used; and
- whether regions' accumulated surpluses should be held centrally or in the regions.

Recommendations

⁽¹²⁾ **We recommend that the ministry:**

- **discuss with the federation how the regional and provincial accumulated surpluses arose, and how they are to be used; and**
- **consider whether to seek recovery as unearned revenue of any amount of those surpluses.**

⁽¹³⁾ **We recommend that the federation's board:**

- **work with the ministry to address how regions' past and future surpluses are to be used; and**
 - **develop policy for use of regional surpluses and for whether regions' accumulated surpluses should be held centrally or regionally.**
-

Federation Responses:

⁽¹³⁾ *The federation will work with the ministry regarding past and future surpluses.*

Ministry Response:

⁽¹²⁾ *The ministry agrees with this recommendation and plans to meet with the federation to discuss the accumulated surpluses and how they arose, and to seek recovery as unearned revenue if appropriate.*

6.0 Travel, Bonuses and Professional Fees

Objective

To ensure travel, bonuses, and professional fees are reasonable and consistent with federation contracts, bylaws, policies, and procedures.

Conclusion

BCFFPA's travel expenditures are consistent with federation contracts, bylaws, policies, and procedures. There may be opportunities to reduce travel costs by reducing the number of regions, or by considering alternate communication methods.

The current bonus process is consistent with federation bylaws, policies, procedures, and past practice, but is not transparent, and does not comply with ministry contracts.

We found that professional fees had risen significantly in the past year due to labour disputes. We also found that the federation does not have a documented process in place for awarding professional service contracts.

6.1 Travel

The federation has developed comprehensive travel policy and procedures. We reviewed a sample of individual travel claims and concluded that they were reasonable and consistent with federation travel policy and procedures.

Travel expenditures account for a significant amount of the federation's annual budget. We estimate that the federation spends approximately \$200,000, or 10% of funding, annually on travel related costs. About half of these costs are incurred by the board and its committees, and the other half by regional representatives and coordinators.

Funds available for service delivery to foster parents would increase if the federation could find effective ways to reduce travel expenditures. We suggest that the agency strive to reduce the costs of travel to meetings by using alternative ways of communicating such as increased use of:

- email;
- fax machines;
- conference calls;
- internet technology;
- video conferencing; and
- the federation website.

Travel costs could also be reduced by reducing the number of regions, reducing the number of board members, and reducing the frequency of provincial and regional meetings. We suggest that the federation consider such changes. We estimate that those changes could reduce annual travel costs by up to \$100,000. If necessary, some of the resultant savings could be used to purchase communication equipment.

Recommendation

⁽¹⁴⁾ **We recommend that the federation consider reducing travel costs by:**

- **increased use of alternate forms of communication;**
 - **reducing the number of regions;**
 - **reducing the number of board members; and**
 - **reducing the frequency of provincial and regional meetings.**
-

Federation Response:

The federation will consider reducing the number of board members and using alternate forms of communication between meetings.

6.2 Bonuses

The federation's bonus process has not been adequately communicated to foster parents, board members, employees or the ministry. The bonus process is not documented in BCFFPA policies, and the process for determining surpluses available for bonus distribution may conflict with ministry contracts regarding unearned revenue.

The federation's provincial office has been paying bonuses annually for the past 15 years. Bonuses were paid only to the executive director and provincial office staff. The annual bonus total has been based substantially upon the difference between budgeted provincial office salaries and actual provincial office salaries. Total bonuses paid were \$11,125 in 2000/01 and \$15,580 in 1999/2000.

In recent years, individual bonus amounts were determined by members of various board committees based on individual staff performance during the past year. The process for evaluating performance was subjective and was not documented. The federation needs policy defining which board committee deals with bonuses, how the total amount and individual amounts are to be determined, and how stakeholders are to be informed.

According to government policy, contracted agencies are permitted to pay bonuses from annual surpluses as long as the surplus resulted from administrative efficiencies. BCFFPA's bonus payments were based on reduced staffing, which could imply reduced service levels. Therefore, the surplus used to fund the annual bonuses may have been unearned revenue which would be repayable to the ministry. There may also be an inherent conflict of interest built into the bonus structure, because reduced staffing, which may result in reduced service levels to foster parents, results in larger bonuses to provincial office staff.

Recommendations

⁽¹⁵⁾ **We recommend that the federation's board develop:**

- **a documented policy for the calculation, approval and communication of bonus payments;**
 - **a documented process, including criteria, for evaluating staff's performance for bonus purposes; and**
 - **a process to distinguish between surpluses derived from administrative efficiencies and from reduced service levels.**
-

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- ⁽¹⁶⁾ **We recommend that the ministry:**
- **work with BCFFPA to determine whether past bonus payments included unearned revenue repayable to the ministry; and**
 - **ensure that service expectations and related unearned revenue calculations are adequately documented in its contracts with BCFFPA.**
-

Federation Responses:

- ⁽¹⁵⁾ *This recommendation has been referred to a board committee.*
- ⁽¹⁶⁾ *Our board executive will work with the ministry on these issues.*

Ministry Responses:

- ^(16a) *The ministry agrees with the recommendation and will meet with the federation to determine whether past bonus payments included unearned revenue repayable to the ministry.*
- ^(16b) *The ministry agrees with this recommendation and will review and revise the BCFFPA contracts to ensure that service expectations and unearned revenue calculations are adequately documented. The Provincial contract has already been modified effective April 1, 2002. The regions are in various stages of reviewing their contracts.*

6.3 Professional Fees

The federation does not have a documented process for awarding professional service contracts. The federation should have policy to invite competitive proposals from professionals for larger expenditures, and to establish which board committee is to be involved.

Professional fees increased significantly in the past year, and are relatively high in comparison to similar sized organizations we have audited. Professional fees were \$23,573 in fiscal 2001, up approximately \$14,000 from the prior year, and up \$20,000 from fiscal 1999. Most of the increase was legal fees for labour issues and revision of the personnel policies. The ministry may not concur with use of ministry funding to pay legal fees for some purposes. Therefore, prior to incurring any significant legal fees, the federation should consult with the ministry.

Recommendation

⁽¹⁷⁾ We recommend that the federation:

- develop a policy to support the open awarding of professional contracts over a specified dollar limit; and
 - consult with the ministry prior to incurring any significant legal fees.
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Federation Response:

Our board has assigned these issues to board committees.