



27 MAR 2017

On 6 January 2017 you emailed the Ministry requesting, under the Official Information Act 1982, information regarding the Ministry's decision to conclude funding the Out of School and Recreation (OSCAR) Foundation.

The Ministry of Social Development, through Work and Income, provides financial support for childcare and out of school care and is committed to supporting services in this sector. Work and Income administers the Childcare Subsidy for pre-school children, and OSCAR Subsidy for children aged 5 to 13. You can find more general information on Childcare Assistance provided by Work and Income at www.workandincome.govt.nz/map/income-support/extra-help/childcare-assistance-programme/oscar-subsidy.html.

The OSCAR Foundation represented service providers in the OSCAR sector and received Ministry funding to provide them with advice and support.

In April 2012, the Ministry contracted Deloitte to complete an independent financial review of the OSCAR Foundation after serious concerns were raised regarding the governance of the organisation. This followed a review conducted in 2008, which provided the OSCAR foundation with recommendations on how to improve their financial and governance systems. Following the 2008 review, written assurances were received from the OSCAR Foundation that they had implemented these recommendations. There had been no reason to doubt these assurances until further concerns were raised with the Ministry in 2012.

The Ministry terminated its contracts with the OSCAR Foundation after the 2012 review determined that the OSCAR Foundation was insolvent. As outlined in the Deloitte report, the OSCAR Foundation was unable to resolve its financial problems and consequently the Ministry decided that it had to terminate its contract to ensure the sector's funding was protected.

It is important to note that the \$500,000 funding appropriated for the OSCAR Foundation for the 2011/2012 financial year remained available to the sector.

At the time, an OSCAR Sector Steering Group was formed to assist with the period of transition and to ensure communication across the OSCAR sector. The Ministry also assumed the OSCAR Foundation's services, including offering advice to providers in regards to funding and meeting the Ministry's OSCAR approval requirements.

Following discussions with the OSCAR Sector Steering Group, on 1 July 2013 the Government set in place a new funding system to spread funding more evenly across the sector and enable the Government to fund more programmes in isolated or low-income communities.

Please find enclosed the following four documents which have been identified as in scope of your request.

- The Deloitte 2008 report titled *The O.S.C.A.R Foundation Inc, Report to Ministry of Social Development, 8 December 2008.*
- The Deloitte 2012 report titled *The O.S.C.A.R Foundation, Briefing to the Ministry of Social Development, 3 May 2012.*
- A letter dated 3 April 2012 from the Ministry to Murray Upton, Chief Executive of the OSCAR Foundation regarding concerns raised about The OSCAR Foundation.
- A letter dated 3 May 2012 from the Ministry to Murray Upton, Chief Executive of the OSCAR Foundation giving notice of termination of contract.

Please note that in the above mentioned documents the personal details of some individuals are withheld under section 9(2)(a) of the Official Information Act in order to protect the privacy of natural persons. The need to protect the privacy of these individuals outweighs any public interest in this information.

Some information is withheld under section 9(2)(ba)(i) of the Official Information Act as it is subject to an obligation of confidence and, if released, could prejudice the supply of similar information in the future. The greater public interest is in ensuring that such information can continue to be supplied.

You will note some information is withheld under section 9(2)(h) of the Official Information Act in order to maintain legal professional privilege. The greater public interest is in ensuring that government agencies can continue to obtain confidential legal advice.

From the Deloitte 2012 report appendices A through G are identified as out of scope of your request. The overall findings of the evidence contained in the appendices are summarised in the 2012 Deloitte report.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public shortly. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response regarding the Ministry's decision to conclude funding the OSCAR Foundation with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ruth Bound". The signature is written in a cursive style with a large initial "R".

Ruth Bound
Deputy Chief Executive, Service Delivery



MINISTRY OF SOCIAL DEVELOPMENT

Te Manatū Whakahiato Ora

Ministry of Social Development, Bowen State Building, Bowen Street, Wellington 6011, PO Box 1556, Wellington 6140
• Telephone: 0-4-916 3300 • Facsimile: 0-4-918 0099

3 May 2012

IN CONFIDENCE

Murray Upton
Chief Executive
The OSCAR Foundation
Section 9(2)(a) Privacy of natural persons

Dear Murray,

The OSCAR Foundation – Notice of Terminations

Thank you for your email response to the Deloitte report.

I have passed your comments onto Deloitte. They have edited the portion in report that relates to the OSCAR Foundation's ("the Foundation") PAYE but they maintain their view of the Foundation's overall financial status.

You did raise an issue of 2009 invoices to the Ministry for \$111,000 which have been recorded as an asset since 2009. You questioned Deloitte adjusting the Financial Position Summary to remove that as an asset. There is no contractual or other commitment recorded by the Ministry. Deloitte's view has not changed on this matter or that of the adjustment for pre-payments that you also questioned. The report maintains the view that the Foundation is insolvent.

The Foundation has two agreements with the Ministry of Social Development, An Agreement for Advice and Support Service (No. NATO-12-00362) and an Agreement for Straight to Work Services (No. ESWI-12-00603) ("the Agreements"). I am writing to give immediate notice that the Ministry of Social Development has decided to terminate these Agreements with your organisation.

Within the Standard Terms of the Agreements a Provider has a Key Obligation to remain solvent and financially viable. Clause 1.1(e) of the Standard Terms requires that the Provider:

"confirms that the Provider is solvent and financially viable at the commencement date and will remain so until the expiry date."

Deloitte has independently reviewed the Foundation and found it to be "deeply insolvent". As clearly demonstrated in the Deloitte report the Foundation is presently neither solvent nor financially viable. You have accepted this in discussions with us previously. Your email today does not deny the Foundation's insolvency nor does it propose any realistic way to address the issue of the Foundation's financial viability.

Due to the Foundation's insolvency and lack of financial viability, the Ministry is invoking termination under clause 19.2(a) of the Standard Terms and Conditions of both Agreements. This clause allows the Ministry to immediately terminate if:

"the Provider is not solvent or is unable to establish to the Ministry that the Provider is sufficiently financially viable to perform its key obligations in accordance with clause 1."

The Foundation should note that under clause 19.4© of the Advice and Support Services Agreement, the Foundation must repay any funding unexpended or not used. The Agreement for Advice and Support Services was to expire on the 30 June 2012 and the funding provided was \$850,000. As calculated on pro rata basis of service period left the unexpended funding should be \$130,769 as at Monday 7 May 2012.

In accordance with 19.7 of the Advice and Support Services Agreement any unpaid unexpended funds will be a debt due to the Ministry and should be paid within 20 days from you receiving this notice of termination. The Ministry under this clause can also deduct this debt from payments made from other agreements. In accordance with clause 19.7 the Ministry has elected to deduct the \$49,590 funding under the Straight to Work Agreement from this unexpended funding debt. This leaves the amount the Foundation owes the Ministry to be \$81,179.

Please make prompt payment of this amount within 20 days.


I also note that you allege that the Ministry has breached clause 15.2 of the contract and disclosed confidential information to the sector. We refute this. The Ministry has provided information to the sector to allow them to understand why the Foundation's conference was cancelled and assure them of ongoing support.

You have recently sent out a notice about the workshop at the weekend. Under these circumstances we do not think it is appropriate for the Foundation to attend.

I understand that the review finding that the Foundation is insolvent, and the subsequent events that have unfolded from that is distressing to you and your staff. The Ministry would still like to work with the Foundation to reduce the disruption to the sector and assist in maintaining the effective delivery of services. I will call you next week to discuss this.

Attached is a copy of the final Deloitte report.

Yours sincerely



Kelvin Moffatt
General Manager Contracts

Copy Peter Heaslip, Chairperson



MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

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3 April 2012

IN CONFIDENCE

Murray Upton
Chief Executive
The OSCAR Foundation
Section 9(2)(a) Privacy of natural persons

Dear Murray

Concerns Raised Regarding The OSCAR Foundation

I write to advise that the Ministry has received information expressing concerns about the management of The OSCAR Foundation including allegations of inappropriate expenditure of funds. The Ministry has also recently received notice of multiple resignations from the OSCAR Foundation's Board, citing concerns about poor governance and information provided to the Board to enable them to carry out their obligations.

These matters are of serious concern to the Ministry and in order for us to have assurance around the funding we provide to the Foundation, we intend to engage Deloitte to carry out an independent review of your organisation's governance and management arrangements including management of finances.

The Intent of the review is to:

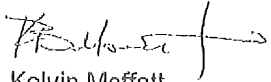
- Review The OSCAR Foundation's governance both at board and management level.
- Examine the appropriateness of the expenditure incurred by The OSCAR Foundation in the past two years.
- Assess The OSCAR Foundation's current financial position and solvency.
- Report on the implementation by The OSCAR Foundation of the Deloitte recommendations made in December 2008.
- Examine any other matters that come to our attention during this review.

As you will be aware clause 7.9 of the General Terms and Conditions of our funding agreements contain provision for such a review.

A representative from Deloitte will contact you shortly to arrange the review.

In the interim, should you wish to contact me to discuss any of these matters, please feel free to call me on Section 9(2)(a)

Yours sincerely



Kelvin Moffatt
General Manager Contracts

Copy: Peter Heaslip, Chairperson

The O.S.C.A.R
Foundation Inc.

Report to Ministry of Social Development

8 December 2008

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Executive Summary

1. The Ministry of Social Development (“MSD”) contracts The O.S.C.A.R Foundation Incorporated (“the Oscar Foundation”) to provide support to approximately 1,200 Oscar providers throughout New Zealand and developmental assistance to potential providers. *Refer to Section 1*
2. MSD provides approximately \$1 million per annum to the Oscar Foundation for these services. The Oscar Foundation has been operating at a deficit for several years and has advised MSD that it requires a significant increase in funding, to cover the deficit, increase staffing levels to cope with current demand and to improve the quality of the service offered. *Refer to Section 1*
3. MSD engaged Deloitte to complete an independent financial review of the Oscar Foundation. We were asked to review and report on the Oscar Foundation’s recent financial performance and position, provide an overview of the service the Oscar Foundation provided in 2008 and summarise the additional support the Oscar Foundation believes is necessary. Following MSD’s receipt of this report, Deloitte will calculate the cost of delivering varying levels of service as directed by MSD. We were also asked to review and comment on the Oscar Foundation’s governance, financial systems and controls. *Refer to Section 1*
4. The Oscar Foundation has operated at a deficit of approximately \$40,000 in each of the last three years. These deficits have eroded the Oscar Foundation’s capital base and it is now in a poor financial position. If the Oscar Foundation is not currently insolvent, it is likely to become insolvent within the next six to twelve months without additional funding or major changes to its operating cost base. *Refer to Sections 2 & 5*
5. The Oscar Foundation must secure additional revenue and/or reduce costs so it can return to operating at a profit immediately. If the Oscar Foundation is unable to secure additional funding, it will probably have to reduce the level of staff by 1 or 2 people in order to return to profitability. Even if the Oscar Foundation began to operate profitably, it may still require additional support, perhaps by way of a term loan, to ensure it can pay wages and creditors as they fall due. *Refer to Sections 4 & 5*
6. The Oscar Foundation advised us that its workload is approximately double the level envisaged when the funding levels were significantly altered in 2005. The Oscar Foundation is seeking additional funding to enable it to employ an additional 12 full

time Oscar Advisers (3 of which will be team leaders for 50% of the time) in order to cope with this additional demand. It would also like to improve the quality of the service by increasing the number of visits to programmes from 1 to 6 per annum and also employ a Trainer and Child Advocate. *Refer to Section 4*

- These initiatives would increase the number of Oscar Adviser's from 15 (including the CYF Development Manager) to 41 and the "operational support staff" from 4 to 8 (excluding the 3 Oscar Advisers who will also be team leaders). These figures include both full and part time staff. Set out below is our preliminary calculation of the additional funding the Oscar Foundation would require to implement these initiatives. These figures, which should be considered indicative, exclude GST and any advance that the Oscar Foundation may require to strengthen its financial position and ensure wages and creditors are paid when due.

Oscar Advice & Support (MSD) and Development (CYF)						
	Funding \$	Staffing*				
		Oscar Advisers	Operational Support	Other activities	Manage & Admin	Total
Current	990,000	15	4	4	3	26
Additional sought						
Deficit funding	40,000					0
Increase staff for current workload	630,000	12				12
Increase the number of visits from 1 to 6 p.a.	1,165,000	14	2			16
Trainer	62,500		1			1
Child Advocate	62,500		1			1
Sub-total	1,960,000	26	4	0	0	30
Total if proposal accepted	2,950,000	41	8	4	3	56
% increase	198%	173%	100%	0%	0%	115%

*Includes Oscar Advisers at Networks. Combination of full and part time staff.

- The Oscar Foundation advised that its current staffing levels are causing considerable stress and the quality of the service provided is at risk. Given the inherent risk in rapidly increasing staffing numbers, we suggest the funding and staffing levels be increased in a phased approach over 2 to 3 years if MSD is interested in funding these initiatives. It would be prudent to first address funding and staffing levels for the

current workload before considering increasing the number of annual visits. The benefits of this approach include:

- It enables the Oscar Foundation to identify, recruit and train good quality staff in an orderly manner, without overwhelming current staff;
- It provides an opportunity for the Oscar Foundation to implement its new database and timesheet system, which will provide the tools to enable the Oscar Foundation to ensure and demonstrate to MSD that it is operating efficiently. The Oscar Foundation advised us the new database and timesheet system is expected to be operational in February 2009;
- The timesheet information will provide the Oscar Foundation and MSD a much better base to determine the optimum level of staff for the current workload;
- The timesheet information will provide the Oscar Foundation and MSD a more robust basis to determine the additional cost of increasing the number of programme visits from 1 to 6 per annum;
- It minimises risk.

Refer to Section 4

9. Although our calculations of cost are preliminary and should be considered indicative, clearly the proposal to increase the number of visits per programme will add a significant level of cost to the Oscar Foundation. If the Ministry is interested in funding the Oscar Foundation to complete more annual visits, it is likely to be more cost effective to target the additional visits at new and/or high risk programmes. In any case it would be prudent to address the Oscar Foundation's current staffing levels/work load before increasing the number of annual visits.

Refer to Section 4

10. The Oscar Foundation's financial controls are poor. The weaknesses identified in this report can quickly and easily be remedied. We also identified some material misstatements in the management accounts at 30 June 2008. These issues are detailed in section 6 of this report.

Refer to Section 6

1. Introduction

Background

- 1.1 The Ministry of Social Development ("MSD") provides funding of approximately \$15 million per annum for services provided before school, after school and during the school holidays. We understand there are approximately 1,200 such service providers in New Zealand ("OSCAR providers").
- 1.2 The O.S.C.A.R Foundation Incorporated ("the Oscar Foundation"), was incorporated on 8 May 1995, and provides support to current and potential the OSCAR providers throughout New Zealand. MSD contracts the Oscar Foundation to provide:
- Ongoing advice and support to OSCAR providers;
 - Funding administration services;
 - Developmental Assistance.
- 1.3 MSD provides funding of approximately \$1 million per annum to the Oscar Foundation for these services. The Oscar Foundation has been operating at a deficit for several years and has advised MSD that it requires a significant increase in funding, to cover both the deficit, to meet current demand and to increase the quality of service offered.

Scope of Report

- 1.4 MSD engaged Deloitte to complete an independent financial review of the Oscar Foundation. Specifically, we were asked to:
- Review and report on the Oscar Foundation's financial performance for the last three years and its budget for the year ending 30 June 2009;
 - Provide an overview of how the Oscar Foundation delivers its services and the costs of doing so for the year to 30 June 2008;
 - Provide an overview of the level of service the Oscar Foundation provided for the year ended 30 June 2008 and summarise the improvement in service the Oscar Foundation believes is necessary;
 - Calculate the cost of delivering varying levels of service as directed by MSD;
 - Review and report on the Oscar Foundation's current financial position; and
 - Review and report on the governance, financial systems and controls in place

- 1.5 The calculation of the cost of delivering varying levels of service will form part of a second report as required by MSD. It does not form a part of this initial report.

Limitations

- 1.6 The terms of this engagement, and the scope of the work you have asked us to undertake, are different from an audit or a review engagement as defined by the New Zealand Institute of Chartered Accountants, and the assurances associated with these reviews will not be given. The Oscar Foundation's management and staff provided us with financial and other information. While we made enquiries and completed analytical review procedures, we did not verify the accuracy of the information provided to us by the Oscar Foundation.
- 1.7 There is, therefore, an unavoidable risk that some material misstatements may remain undiscovered. Our review cannot be relied on to prevent or detect fraud or error

Fieldwork & Report

- 1.8 We completed our fieldwork for this review at the Oscar Foundation's premises in Auckland on 31 July 2008. Our principal contacts for the fieldwork were:

- Murray Upton, Chief Executive,

Section 9(2)(a) Privacy of natural persons, Operations Manager;

Section 9(2)(a), Accounts Manager.

- 1.9 At the conclusion of our fieldwork we discussed our key findings at that point with Murray and Section 9(2)(a). Following the fieldwork we obtained further information by way of email and telephone conversations, as well as two further meetings on 14 August 2008 and 24 September 2008.

- 1.10 There was a considerable delay in the Oscar Foundation providing us with its timesheet data, which we eventually received on 6 October 2008. We extracted the data we believed to be relevant and sent this to the Oscar Foundation on 8 October 2008 seeking commentary on the reasonableness of the data extracted. We obtained Oscar's comments on the database on 21 October 2008.

- 1.11 We were provided with full access to the Oscar Foundation's financial records and the staff and management co-operated with our enquiries and review. We provided the Oscar Foundation with a draft copy of this report on 27 November 2008.

2. Financial Performance

2.1 In this section of the report we provide an overview of the Oscar Foundation's financial performance for the three years ended 30 June 2008.

2.2 Table 1 summarises the Oscar Foundation's actual financial performance for the three years to 30 June 2008. The Oscar Foundation has prepared a budget for the six months ended 31 December 2008, but has not prepared a budget for the year ending 30 June 2009¹.

Table 1 – The Oscar Foundation's Financial Performance			
Year ended 30 June	2006	2007	2008
	Actual	Actual	Draft
	\$000's	\$000's	\$000's
Revenue			
MSD Contact	1,050	1,090	1,139
Sponsorships	33	62	62
Conference	71	111	8
Other	66	47	87
	<u>1,220</u>	<u>1,310</u>	<u>1,296</u>
Expenditure			
Conference expenses	(79)	(111)	(10)
Contracts for services	(267)	(274)	(181)
Depreciation	(37)	(47)	(36)
Other expenses	(154)	(174)	(179)
Rent	(77)	(81)	(88)
Salaries & wages	(508)	(464)	(595)
Special events	(42)	(94)	(147)
Travel	(94)	(107)	(95)
	<u>(1,258)</u>	<u>(1,352)</u>	<u>(1,331)</u>
Net Surplus/(Deficit)	<u>(38)</u>	<u>(42)</u>	<u>(35)</u>

Source: Audited financial statements for the years ended 30 June 2006 and 2007. Management accounts at 30 June 2008.

2.3 The Oscar Foundation's revenue has been reasonably stable at \$1.2 million to \$1.3 million over the last three years. MSD's contract funding has accounted for approximately 80% to 90% of the Oscar Foundation's total revenue in each of the last three years.

¹ The Oscar Foundation advised us that it has not prepared a budget for the year ending 30 June 2009 as it is unclear what level its contract with MSD will be set at.

2.4 Expenditure has also been stable over the last three years. Salaries and wages is by far the largest expense, accounting for approximately 40% of total expenditure in 2008. The Oscar Foundation outsourced the provision of its services in Auckland and Christchurch. This expense appears in Table 1 as “contracts for services”, and it accounted for approximately 20% of total expenditure in 2008.

2.5 Special events of \$147,000 in 2008 comprises:

- Go Kids - \$55,000. We understand this is the direct operational costs, including salaries and wages of approximately \$26,000 incurred in providing this programme. The Oscar Foundation receives corporate sponsorship to provide this programme.
- MSD funding round - \$81,000. We were advised that is the cost of the additional temporary staff the Oscar Foundation employs to assist with processing the funding applications.
- Other - \$11,000.

2.6 Table 2 provides a breakdown of the other expenses for 2008.

Table 2 – The Oscar Foundation’s Other expenses			
Year ended 30 June	2006	2007	2008
	Actual	Actual	Draft
	\$000's	\$000's	\$000's
Accounting, legal & insurance	(8)	(16)	(11)
Computer costs	(13)	(19)	(17)
Meeting expenses	(15)	(13)	(10)
Postage, stationery & freight & printing	(36)	(31)	(43)
Telecommunications	(36)	(30)	(36)
Training & development	(21)	(41)	(39)
Less than \$10,000	(25)	(24)	(23)
	(154)	(174)	(179)

Source: Audited financial statements for the years ended 30 June 2006 and 2007. Management accounts at 30 June 2008.

2.7 The Oscar Foundation has recorded deficits of approximately \$40,000 in each of the last three years. The Oscar Foundation is now in a poor financial position as a direct result of these deficits. We comment further on the Oscar Foundation’s financial position in section 5 of this report.

3. Provision of Services & Costs

3.1 In this section of the report we provide an overview of the services the Oscar Foundation provides, how it delivers those services, and the costs of delivering the services for the year ended 30 June 2008. We also outline the improvements the Oscar Foundation believes are necessary in order to provide a quality service.

Delivery of services

3.2 Table 3 provides a summary of the revenues and expenses for the Oscar Foundation's key activities².

Table 3 - The Oscar Foundation's Financial Performance for the year ended 30 June 2008 By Activity						
	MSD		Go-kids	O'head	Total	
	Funds	Advice	Subtotal			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
MSD contract	135	990	1,125	-	14	1,139
Go Kids sponsorship	-	-	-	62	-	62
Other	-	18	18	-	77	95
	135	1,008	1,143	62	91	1,296
Direct expenses						
Salaries & wages – frontline	(52)	(201)	(253)	(21)	-	(274)
Salaries & wages – other	-	(157)	(157)	-	-	(157)
Subcontractors	-	(181)	(181)	-	-	(181)
Funds costs	(81)	-	(81)	-	-	(81)
Other	-	(31)	(31)	(29)	-	(60)
	(133)	(570)	(703)	(50)	-	(753)
Contribution	2	438	440	12	91	543
Share of overheads	(86)	(370)	(456)	(32)	(91)	(579)
Surplus/(deficit)	(84)	68	(16)	(20)	-	(36)

Source: Total revenues and expenses per management accounts to 30 June 2008. Allocation of revenues and expenses completed by Deloitte. Overhead costs allocated based on share of direct costs.

² The Oscar Foundation's accounting system does not capture revenue and costs on a contract or activity basis. We have prepared this table based on information provided to us by The Oscar Foundation and judgements made by us.

Funding Administration Services

- 3.3 The Oscar Foundation co-ordinates all funding applications for programme providers throughout New Zealand. This involves distributing and receiving application forms, ensuring supporting documentation is attached and making recommendations to MSD. The annual funding for this part of the contract was approximately \$135,000 excluding GST for the year ended 30 June 2008.
- 3.4 The funding applications are processed in April and October each year. The Oscar Foundation employs two permanent staff (32 hours and an average of 23 hours per week respectively) and a number of temporary staff to assist with the processing. All of the processing is completed in the Oscar Foundation's Auckland office.
- 3.5 This service incurred direct costs of \$133,000 in the year ended 30 June 2008, and operated at a surplus of \$2,000 before an allowance is made for share of overhead costs³ and a loss of \$84,000 after providing for a share of overhead costs⁴.

Ongoing Advice and Support and Developmental Assistance

- 3.6 MSD contracts the Oscar Foundation to provide:
- Ongoing advice and support to service providers. This includes the development, implementation and communication of policies and procedures, programme content and activities, good practices and other activities such as fund raising. The Oscar Foundation is expected to ensure that the OSCAR programmes which receive funding are contacted at least 4 times each year, one of which is to be a physical site visit. The Oscar Foundation is also expected to monitor the services provided. The annual funding for this part of the contract is \$880,000 excluding GST⁵.
 - Developmental Assistance. Provision of developmental assistance to potential OSCAR providers. The MSD funding for the year ended 30 June 2008 is \$110,000 excluding GST⁶.

³ Rent, wages and salaries for management and administration staff, etc.

⁴ Calculated based on share of direct costs.

⁵ For the two years ended 30 June 2008.

⁶ Figure paid provided by MSD. The Oscar Foundation advised the funding is \$100,000 excluding GST.

- 3.7 The Oscar Foundation advised us that its workload has doubled but its funding and staffing levels have remained largely unchanged over the last three years. The Oscar Foundation has prepared a graph setting out the increase in the number of programmes and its funding levels since April 2004. A copy of this graph is attached as **Appendix A**.
- 3.8 Interestingly this graph suggests the number of programmes has increased from approximately 670 in April 2004 to approximately 1,200 in October 2007, an increase of approximately 80%. The graph suggests funding during this period has increased from approximately \$500,000 per annum to \$945,000 per annum, an increase approximately 90%.
- 3.9 The Oscar Foundation's graph initially suggests that its funding has actually grown faster than the number of programmes. However the Oscar Foundation advised us that the 2006 funding of \$927,000 per annum was calculated based on 2003/2004 volumes, effectively meaning the number of programmes have doubled (between 2003/2004 and 2007) but funding has only marginally increased (between 2006 and 2007). It was beyond the scope of this report to verify these claims.
- 3.10 The Oscar Foundation provides these services throughout New Zealand via its own frontline staff and subcontracted organisation as set out in Table 4:

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Table 4 – The Oscar Foundation’s provision of Advice and Developmental Assistance				
Region	Providers per report to MSD July 2007 & Jan 2008	Services provided by	Number of direct people (full & part time)	Premises
Northland	48	Section 9(2)(a)	1	-
Auckland	369	Network	4	Yes
Waikato/King Country	123	9(2)(a)	1	Yes
Thames/Coromandel/Bay of Plenty	113	9(2)(a)	1	-
Hawkes Bay/Poverty Bay/Manawatu	123	9(2)(a)	1	-
Wellington/Wairarapa/Kapiti Coast	95	9(2)(a)	1	Yes
Nelson	61	9(2)(a)	1	-
Christchurch	189	Network	3	Yes
Otago/Southland	59	9(2)(a)	1	-
Total	1,180		14	

3.11 The Oscar Foundation paid its own frontline staff \$201,000 for the year ended 30 June 2008. The Oscar Foundation paid the networks \$163,000 in fees and \$18,000 in disbursements (mileage, travel, etc) for the same period. We understand that the staff at the networks will transfer and be directly employed by the Oscar Foundation from January 2009 onwards. This is not expected to alter the Oscar Foundation's cost base (i.e. the savings in contracting costs will be offset by higher wages).

3.12 The 15 frontline staff⁷ are supported by 4 staff (additional to Chief Executive, finance and administration staff) at a cost of \$157,000 for the year ended 30 June 2008:

- Operations Manager;
- Publications and Research Manager (20 hours per week);
- Marketing Communications Manager;
- Membership Manager Services.

⁷ Includes the national CYF Development Manager, which the Oscar Foundation counts as a frontline staff member.

3.13 Other direct costs of \$31,000 incurred in providing these services for the year ended 30 June 2008 comprise:

- Meeting costs - \$10,000;
- Conference - \$10,000 (which was largely offset by conference income of \$8,000);
- Schools Out - \$8,000 (which was offset by Schools Out income of \$9,000);
- The Oscar Foundation week - \$3,000 (which was partially offset by the Oscar Foundation week income of \$1,000).

3.14 These services incurred direct costs of \$570,000, and operated at a surplus of \$438,000 before an allowance is made for share of overhead costs and a surplus of \$68,000 after providing for a share of overhead costs⁸.

Go Kids

3.15 The Oscar Foundation also provides a "Go Kids" programme, which is intended to enhance the health and fitness of children participating in Oscar programmes via exercise activities and nutrition advice. The Oscar Foundation receives funding from Coca Cola to deliver this programme.

3.16 The Oscar Foundation employs 2 part time staff to provide the Go Kids programme. Total direct costs for this programme for the year ended 30 June 2008 were \$50,000, including wage costs of \$21,000⁹.

3.17 This programme operated at a surplus of \$12,000 before an allowance is made for overhead costs, and a deficit of \$20,000 after providing for a share of overhead costs¹⁰.

⁸ Calculated based on share of direct costs

⁹ One staff member works on both Go Kids and is an Oscar adviser. 30% of her salary has been recognised in the Advice and Support salaries in Table 3.

¹⁰ Calculated based on share of direct costs

Overhead costs

3.18 The Oscar Foundation's overhead costs of \$579,000 incurred in the year ended 30 June 2008 are summarised in Table 5:

Table 5 - The Oscar Foundation's overhead costs	
	\$'000
Board expenditure	29
Salaries & wages	190
Other staff costs	42
Staff travel expenditure	78
Rent & office costs	203
Depreciation	37
	579

3.19 The salaries and wages of \$190,000 pay for the management, financial and administration staff.

3.20 Other staff costs of \$42,000 include training and development costs of \$39,000 for all the Oscar Foundation staff. Staff travel costs of \$78,000 include mileage, car hire, airfares and accommodation for the Oscar Foundation staff. Rent and office costs include rent, for the Auckland, Hamilton and Wellington offices totalling \$84,000, telecommunication \$36,000, postage, stationery and printing \$43,000, professional fees \$11,000 and IT costs.

Profitability

3.21 The analysis in Table 4 suggests that the core service of Advice, Support and Development operated at a surplus for the year ended 30 June 2008, whereas the Funding Assistance and Go Kids programme operates at a loss after an allowance is made for the Oscar Foundation's overhead costs.

3.22 Our impression is there may be some scope to monitor and control costs somewhat more rigorously than present particularly in the office costs area detailed above. However the key driver of cost in the Oscar Foundation is staffing, which we discuss in more detail in section 4 of this report.

4. Improvements Identified By the Oscar Foundation

4.1 In this section of the report we summarise the improvements the Oscar Foundation believes should occur in order to ensure a quality service is provided and set out our initial thoughts on the financial implications of the proposals.

Improvements Identified By the Oscar Foundation

4.2 The Oscar Foundation has identified the following improvements it believes should occur in order to ensure a quality service is provided

- **Increase staffing to cope with current demand** – The Oscar Foundation advised that it has managed to complete 1 visit per programme per annum, but notes that it is currently understaffed. The Oscar Foundation advised us that its team is stressed and many of the staff are working long hours in order to keep up. The Oscar Foundation believes it is necessary to employ an additional 12 full time staff. 9 of these staff would be full time Oscar Advisers and 3 would be Oscar Advisers and double as team leaders;
- **Increase the number of programme visits** – The Oscar Foundation would like to increase the number of visits from 1 visit per programme per annum to 6 visits per programme per annum. We were advised that the Oscar Foundation's equivalent in ACT, Australia completes 6 visits per annum, 4 being scheduled, the other 2 are random;
- **Employ a trainer** – The Oscar Foundation would like to employ a full time trainer to train and develop the Oscar Foundation staff.
- **Employ a Child Advocate** – The Oscar Foundation would like to employ a full time "Child Advocate", who would interview children to obtain feedback on programmes delivered, etc.

Our initial thoughts on the financial implications of the Oscar Foundation’s proposals

Increase staffing to cope with current demand

- 4.3 The Oscar Foundation’s proposal to employ an additional 12 full time staff to cope with current demand would increase annual operating costs by approximately \$630,000 per annum, which is an increase of approximately 72% on current funding of \$880,000 per annum.
- 4.4 The Oscar Foundation’s timesheet data suggests that some, but not all staff are working significantly more than 40 hours per week. Our findings are summarised in Table 6.

Table 6 – Percentage of weeks where hours recorded in the timesheet exceeds 40 hours for Oscar advisers

	Total	40=< x <45	45=< x <50	50=< x
Section 9(2)(a)	53%	38%	10%	3%
	2%	2%	0%	0%
	4%	3%	1%	0%
	1%	1%	0%	0%
	13%	9%	2%	2%
	28%	21%	7%	0%
	24%	12%	9%	3%

- 4.5 The Oscar Foundation is concerned that its timesheet data is incomplete, which undermines this analysis. The timesheet data does suggest some staff are working more than 40 hours per week (note: some of the staff are also part time).
- 4.6 In our experience the performance and efficiency of teams managed remotely is often poorer than teams managed where all staff are in one location. This risk is increased where there is a lack of control in place such as that provided by a well monitored timesheet or similar control system. The Oscar Foundation advised us that it uses other indicators to monitor performance such as numbers of funded programmes, numbers attending network training and meetings, etc.

Increase the number of programme visits

- 4.7 The Oscar Foundation’s timesheet data is not sufficiently robust to use as a basis for determining the average time taken to complete the programme visits. However the

Oscar Foundation estimates that the average visit takes approximately 4 hours to complete. Assuming this estimate is accurate and is reasonably representative of the time it will take for additional visits, our preliminary calculations suggest the additional cost of increasing the numbers of visits from 1 to 6 per annum for 1,200 providers would be in the region of \$1.16 million and approximately 14 additional full time Oscar Advisers would be required to complete these additional visits. This preliminary estimate of cost also includes the cost for two full-time team leaders the Oscar Foundation advised us would be necessary to manage the additional staff.

- 4.8 If implemented this would increase the cost per provider from approximately \$700 per annum to \$2,200 per annum. This cost may be appropriate for large and /or high risk programmes, but may be uneconomic for small programmes.
- 4.9 If the Ministry is prepared to fund the Oscar Foundation to complete more annual visits, it is likely to be more cost effective to target the additional visits at new and/or high risk programmes.

Employ a Trainer and Child Advocate

- 4.10 Our preliminary calculation suggests the additional cost for employing a trainer and/or child advocate would be in the region of \$62,500 each per annum assuming suitably qualified staff could be employed for \$50,000 per annum and an allowance of \$12,500 per annum is made for ACC, training, travel, telephone, electricity and other costs.
- 4.11 The Oscar Foundation already has 4 "non-frontline" staff supporting the 14 Oscar Advisers, which is more than we anticipated. The Oscar Foundation advised us that it has deliberately tried to centralise its operations as this is more efficient and allows the Oscar Advisers to focus n their core business and demands from the sector.

Approach to increasing funding & staffing

- 4.12 The Oscar Foundation advised us that its current staffing levels are causing considerable stress and the quality of the service provided is at risk.

- 4.13 The Oscar Foundation's proposals would increase staffing levels from 26 staff to 56 staff including the staff at the networks in Auckland and Christchurch. Given the inherent risk in rapidly increasing staffing numbers, we suggest the funding and staffing levels be increased in a phased approach over 2 to 3 years if MSD is interested in funding these initiatives. It would be prudent to first address funding and staffing levels for the current workload before considering increasing the number of annual visits. The benefits of this approach include:

- It enables the Oscar Foundation to identify, recruit and train good quality staff in an orderly manner, without overwhelming current staff¹²;
- It provides an opportunity for the Oscar Foundation to implement its new database and timesheet system, which will provide the tools to enable the Oscar Foundation to ensure and demonstrate to MSD that it is operating efficiently. The Oscar Foundation advised us the new database and timesheet system is expected to be operational in February 2009;
- The timesheet information will provide the Oscar Foundation and MSD a much better base to determine the optimum level of staff for the current workload;
- The timesheet information will provide the Oscar Foundation and MSD a more robust basis to determine the additional cost of increasing the number of programme visits from 1 to 6 per annum.;
- It minimises risk.

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¹² Oscar is confident it can identify and recruit large numbers of quality staff immediately

5. Financial Position

- 5.1 In this section of the report we summarise and comment on the Oscar Foundation's current financial position.
- 5.2 Table 7 summarises the Oscar Foundation's financial position as at 30 June for the last three years.

As at 30 June	2006 \$'000s	2007 \$'000s	2008 \$'000s	Restated \$'000s
Current assets				
Bank	86	117	32	32
Accounts receivable	33	30	16	16
Prepayments	1	1	68	20
Other	14	(1)	12	12
	<u>134</u>	<u>147</u>	<u>128</u>	<u>80</u>
Current liabilities				
Accounts payable	(43)	(92)	(98)	(98)
Holiday pay	-	-	-	(30)
	<u>(43)</u>	<u>(92)</u>	<u>(98)</u>	<u>(128)</u>
Working capital	91	55	30	(48)
Fixed Assets	83	76	66	114
Net Assets	<u>174</u>	<u>131</u>	<u>96</u>	<u>66</u>

Source: Audited financial statements as at 30 June 2006 and 2007. Management accounts as at 30 June 2008

5.3 It appears that the management accounts at 30 June 2008 overstates the Oscar Foundation's working capital and net assets as follows¹³:

- The Oscar Foundation has a holiday pay liability of approximately \$30,000 which is not recognised at 30 June 2008. This adjustment reduces both working capital and net assets by \$30,000. It will also increase the reported loss for 2008 from \$36,000 to \$66,000;
- The prepayments of \$68,000 include a payment of \$48,000 for the purchase of database software. This asset won't be available to pay current liabilities so should be presented as a fixed asset. This reduces working capital by a further \$48,000.

¹³ We have not completed an audit. There may be other misstated balances in the management accounts at 30 June 2008.

5.4 Working capital is a good indicator of financial health. Small not for profit organisations should ideally have the equivalent of say 3 months expenditure in working capital, which would be approximately \$300,000 for the Oscar Foundation. The Oscar Foundation's working capital at 30 June 2008 is *negative* \$48,000. Put another way, its current liabilities (accounts payable, etc) exceed the current assets (cash and other reasonably liquid assets) by \$48,000.

5.5 The Oscar Foundation is now in a poor financial position as a direct result of continually operating at a deficit. If the Oscar Foundation is not currently insolvent, it is likely to become insolvent within the next six to twelve months if it continues to operate at a deficit. We note:

- At 30 June 2008 the Oscar Foundation's PAYE for May 2008 was outstanding and overdue;
- There was approximately \$39,000 of creditors at 30 June 2008 in excess of 30 days past due date. We were advised this delay in payment was caused by cash flow difficulties;
- The Oscar Foundation has a \$50,000 overdraft facility with ASB Bank. On 26 June 2008, the bank account was \$52,000 in overdraft, prior to a payment of \$94,000 from MSD, which returned the bank account to being in funds;
- The Oscar Foundation also had overdue creditors of \$9,000 in December 2007. These creditors were mostly paid in January 2008 after the receipt of MSD's funding, which is paid six monthly.

5.6 The Oscar Foundation's financial position will deteriorate further unless the Oscar Foundation is able to return to operating profitability, which will require increased revenue and/or decreased expenditure. Even if this occurs, the Oscar Foundation may require additional support, perhaps by way of a term loan, to enable it to pay wages and creditors as they fall due. The Oscar Foundation should prepare a month by month cash flow budget to determine the level of support required.

6. Governance, Financial Systems and Controls

- 6.1 In this section of the report we comment on the Oscar Foundation's governance, financial systems and controls in place.

Overview of the Governance, Financial Systems and Controls

- 6.2 The Oscar Foundation is governed by 6 Board Members, who meet every two months. The Board is provided with financial and operational reports and minutes are kept of the Board meetings.
- 6.3 The Board minutes refer to some discussion about the need for additional financial and legal skills on the Board. Murray Upton advised us that the Board decided it will bring in accounting and legal skills from external sources as and when they are required.
- 6.4 The Oscar Foundation's accounting records are maintained mainly on MYOB accounting software and a small number of spreadsheets. Records are filed in a tidy and logical fashion. Management accounts are prepared monthly, and include actual versus budget results.
- 6.5 JSA Chartered Accountants audits the Oscar Foundation's annual financial statements. The Oscar Foundation has received unqualified audit opinions for the 2006 and 2007 years.
- 6.6 Set out below are our recommendations for improving the Oscar Foundation's financial systems and controls.

Financial Systems

Accuracy of the Management Accounts

- 6.7 Section five of this report lists two issues in the management accounts at 30 June 2008, which materially overstate working capital and understate the deficit for 2008. It is critical that management and the Board receive robust management accounts, particularly at the moment given the Oscar Foundation's poor financial position.
- 6.8 It was beyond the scope of this review to identify the reasons for the misstatements in the management accounts at 30 June 2008, however in the brief time we spent with Section 9(2)(a) who prepares the monthly accounts, we formed the impression that

she is competent and well suited to her role. There may be merit in the Oscar Foundation's management accounts to be reviewed or "sense checked" by an external accountant from time to time. The cost of such a review would not be significant.

Timeframe – for consideration

Reporting by contract/division

- 6.9 The Oscar Foundation's financial reporting system is not set up to report on a contract by contract basis. The accounting system should be set up so that revenues and direct costs are captured on a contract by contract basis. This information is critical to enable the Oscar Foundation's management to monitor performance and profitability on a contract by contract basis.

Timeframe – July 2009 (for the 2009 financial year)

Controls

Internet Banking Facility

- 6.10 The Oscar Foundation operates an Internet banking facility. The facility only requires one password to authorise payments. In our opinion, this arrangement does not provide a sufficient level of control. In our opinion, all payments should require two people to enter passwords to effect payment. We recommend that the Oscar Foundation either modifies the Internet banking facility so that a second password is required (i.e. from a signatory) or cancels the Internet banking facility.

- 6.11 When considering Internet banking, it is critical to bear in mind that the bank only refers to the payee's bank account number entered and does not refer to the payee's name when processing payments. It is therefore important to have adequate controls over the establishment and maintenance of the payee details to prevent someone altering the system so that an appropriate creditor has an incorrect bank account number (e.g. Telecom is listed as the payee, but John Smith's bank account number is entered into the bank account details).

- 6.12 In order to gain confidence that the payee's details have been correctly loaded into the system, we suggest:

- People who have the ability to create or approve payments should not have the ability to set-up or otherwise modify the payee's details. The person who sets up the payees' details should only enter the bank account number into the system when he or she receives an original bank deposit slip from the payee. This original bank deposit slip should be maintained on a master file;
- When approving payments on the Internet, we suggest the authorisers randomly select a few payments in each batch authorised and check that the bank account details on the Internet match the bank account details held on the master file. The authorisers should also ensure that *each* payment is supported by an approved invoice (or payroll) and the expenditure appears reasonable (as per cheque payments).

Timeframe – Immediate

Signed Blank Cheques

- 6.13 We were advised that in the past a signatory at the Oscar Foundation pre-signed blank cheques to enable the organisation to make payments while the staff member was overseas for a few months. While we appreciate that it is not always convenient to find two signatories (especially in a small not-for-profit organisation), it is critical that this practice does not occur. Signing blank cheques overrides a fundamental control, and provides the opportunity for funds to be easily misappropriated, if someone was motivated to do so.

Timeframe – Immediate

Petty Cash

- 6.14 The Oscar Foundation tops up petty cash by \$200. It is preferable that petty cash be topped up to \$200. This way the petty cash float should have no more than \$200 at all times. It should always consist of either \$200 cash or receipts (or a combination of the two). Additionally, when the cheque for petty cash is presented to top up the balance, the cheque should always be supported by receipts for the same amount.

- 6.15 We also noted that small deposits are made into the petty cash system. Although this may be convenient, we suggest that this practice is stopped, as it makes it difficult to control the level of cash held in petty cash. All deposits should be banked into the bank account.

Timeframe – Immediate

Bank Reconciliation

- 6.16 Currently, the financial administrator prepares a bank reconciliation. We recommend that the bank reconciliation be reviewed by say, the Chief Executive. The reviewer should sign and date the bank reconciliation to provide an audit trail that the bank reconciliation has been reviewed.

Timeframe – Immediate

Banking

- 6.17 There are currently no processes to ensure that all cheques that are received by the Oscar Foundation are banked into its bank account. There are currently two people who open the mail. We suggest that all cheques received be recorded into a receipt book as the mail is opened. The Oscar Foundation should then design a system so there is a check that all receipts are recorded in the accounting system and these sums are also banked. The Oscar Foundation's accountant should be to provide advice on this matter.

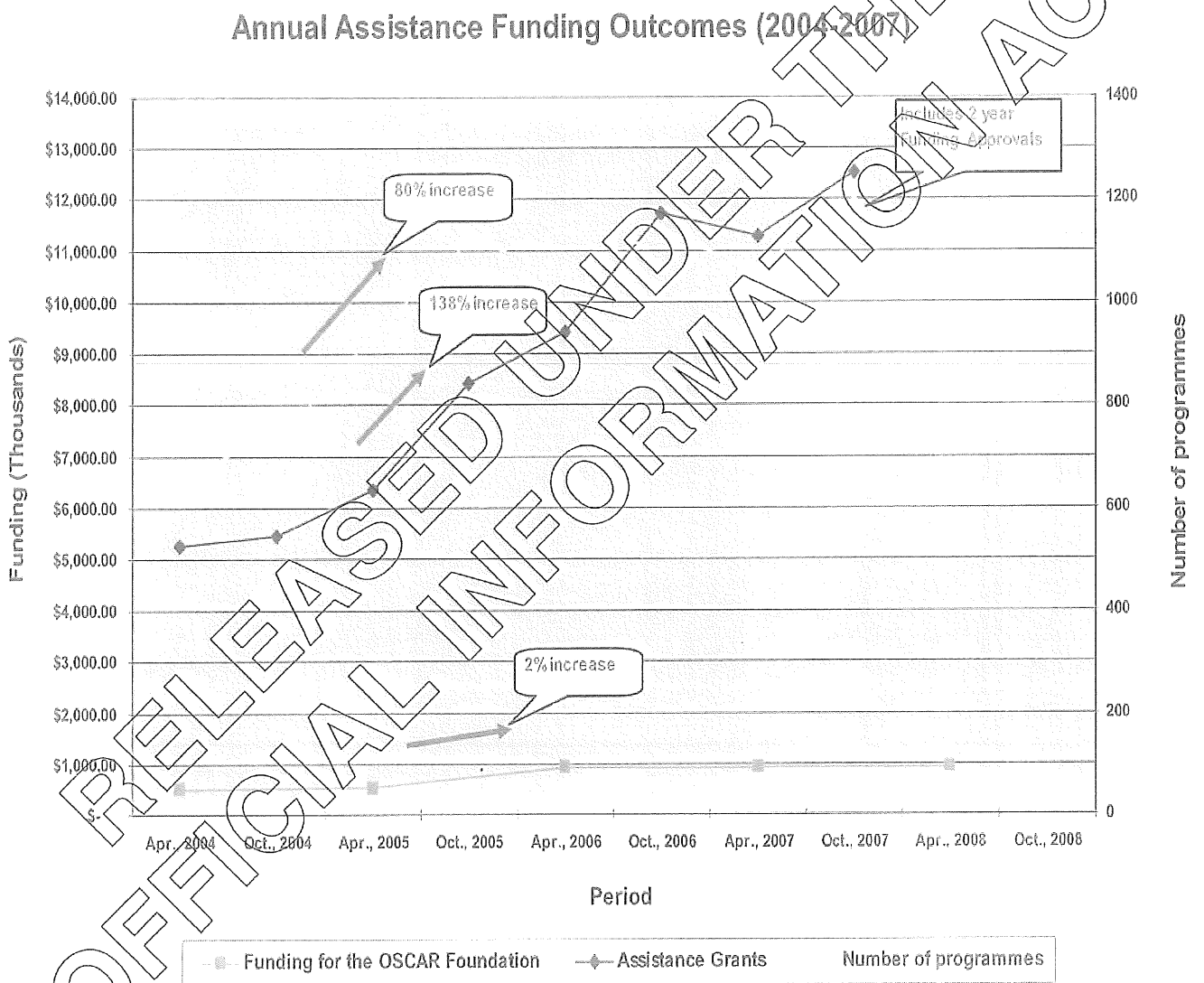
Timeframe – Immediate

Credit Card

- 6.18 The Oscar Foundation currently provides the Chief Executive with a corporate credit card. The credit card balance is paid monthly by direct credit, which means expenditure does not have to be reviewed before payment occurs. We suggest that the direct credit for the payment of the credit card balance be cancelled and that all payments be made through the normal authorisation process.

- 6.19 We would expect the expenditure to be reviewed and approved by someone independent of the Chief Executive. Chairs or Finance Committees are often responsible for reviewing and approving credit card expenditure incurred by the Chief Executive in not for profit organisations.

Appendix A: Programme & funding growth



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