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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF
AMEGO, INC.
JULY 1, 2007 THROUGH JUNE 30, 2009**

**OFFICIAL AUDIT
REPORT
SEPTEMBER 30, 2010**

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Amego, Inc. (Amego) was organized on June 29, 1971, under the provisions of Chapter 180 of the Massachusetts General Laws, as a not-for-profit corporation. The agency provides educational, vocational, and community-based residential services to children and adults with autism and related disorders residing in southeastern Massachusetts. Amego is licensed by the state's Department of Early Education and Care (EEC) and approved by the Department of Elementary and Secondary Education (DESE) to provide special education services to children and adults.

Our audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. The scope of our audit was to examine various administrative and operational activities of Amego during the period July 1, 2007 through June 30, 2009.

Our audit procedures consisted of the following:

- A determination of whether Amego had implemented effective internal controls, including:
 - a) Processes for planning, organizing, directing, and controlling program operations;
 - b) Policies and procedures to ensure that resource use is consistent with laws and regulations; and
 - c) Policies and procedures to ensure that resources are safeguarded and efficiently used.
- An assessment of Amego's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic requirements of its state contracts.

Our audit identified that during our audit period, Amego charged non-reimbursable expenses totaling at least \$27,130 to state-funded contracts, did not use an approved methodology for allocating at least \$563,409 of its administrative expenses to its programs, and had not established adequate internal controls over certain aspects of its operations. As a result, Amego misreported \$172,533 in expenses.

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We found that during fiscal years 2008 and 2009, Amego used at least \$26,025 in state funds to pay for credit card expenses for which there were inadequate documentation to substantiate the business nature of these expenses. We also found that during fiscal year 2008, Amego used state funds totaling \$1,105 to make donations to other organizations.

According to state regulations, expenses such as these are unallowable and non-reimbursable under state-funded contracts.

2. AMEGO DID NOT USE AN APPROVED METHODOLOGY TO ALLOCATE PAYROLL-RELATED EXPENSES TOTALING APPROXIMATELY \$563,409 **9**

The state's Operational Services Division has established guidelines that require all contracted human service providers such as Amego to allocate indirect administrative expenses to programs using one of four accepted cost allocation methods. The purpose of using one of these four approved methods is to ensure that all of an agency's indirect costs are allocated to its programs in an equitable and consistent manner so that the results of each program's activities are accurately reported in the financial statements it files with the Commonwealth. However, during the period covered by our audit, Amego did not use one of the four approved cost allocation methodologies when it allocated the payroll-related expenses for eight administrative staff members totaling at least \$563,409 to its programs. As a result, there is inadequate assurance that the results of Amego's program activities as reported in the financial statements that it submitted to the Commonwealth during the period covered by our audit are accurate.

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We found that Amego had not developed and implemented an adequate system of internal controls over various aspects of its operations. For example, during fiscal years 2008 and 2009, Amego lacked a documented accounting manual, did not have procedures that ensured that it accurately reported all required information in the financial statements it filed with OSD, and did not take measures to address all of the recommendations that had been made by its private accounting firm.

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INTRODUCTION

Background

Amego, Inc. (Amego) was organized on June 29, 1971, under the provisions of Chapter 180 of the Massachusetts General Laws, as a not-for-profit corporation. Currently, Amego provides educational, vocational, and community-based residential and other support services to children and adults with autism and related disorders residing in southeastern Massachusetts. The agency is licensed by the Department of Early Education and Care (EEC) and approved by the state's Department of Elementary and Secondary Education (DESE) to provide special education services to children and adults.

During our audit period, Amego was operating three state-funded programs that included a children's program, which provides residential and educational services to approximately 23 children, and two adult programs, which provide employment support and residential services for approximately 59 adults. A more detailed description of these programs appears in the Appendix to this report. During fiscal years 2008 and 2009, Amego received funding from a variety of sources, as indicated in the table below:

Summary of Revenue*

July 1, 2007 through June 30, 2009

Revenue Source	Fiscal Year 2008	Fiscal Year 2009
Contributions and Gifts	\$25,543	\$26,440
Department of Developmental Services (DDS)	6,451,803	6,893,244
Department of Social Services (DSS)	988,147	1,026,281
Other Mass. State Agency POS	101,382	90,768
Mass. Local Gov't./Quasi-Gov't. Entities	3,049,957	3,257,276
Medicaid – Direct Payments	0	173,807
Client Resources	350,932	473,141
Commercial Activities	686	100
Investment Revenue	142	1,634
Other Revenue	<u>39,857</u>	<u>17,246</u>
Total Revenues	<u>\$11,008,449</u>	<u>\$11,959,937</u>

*Revenue information was extracted from Amego's fiscal years 2008 and 2009 Uniform Financial Statements and Independent Auditor's Reports (UFRs) that it filed with the Commonwealth.

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of Amego during the period July 1, 2007 to June 30, 2009.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit procedures consisted of the following:

- A determination of whether Amego had implemented effective internal controls, including:
 - a) Processes for planning, organizing, directing, and controlling program operations;
 - b) Policies and procedures to ensure that resource use is consistent with laws and regulations; and
 - c) Policies and procedures to ensure that resources are safeguarded and efficiently used.
- An assessment of Amego's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic requirements of its state contracts.

In order to achieve our objectives, we first assessed the internal controls established and implemented by Amego over its operations. The purpose of this assessment was to obtain an understanding of management's attitude, the control environment, and the flow of transactions through Amego's accounting system. We used this assessment in planning and performing our audit tests. We then held discussions with Amego officials; officials from the state's Operational Services Division (OSD), Department of Developmental Services (DDS), Department of Elementary and Secondary Education (DESE), Department of Revenue (DOR), and Department of the State Treasurer; officials from federal departments, including the Internal Revenue Service (IRS) and United States Citizen and Immigration Service (USCIS); and reviewed organization charts and internal policies and procedures, as well as all applicable laws, rules, and regulations. We also examined Amego's financial statements, cost reports, invoices, and other pertinent financial records to determine whether the expenses it incurred during the period covered by our audit were

reasonable, allowable, properly authorized, and recorded and in compliance with applicable laws, rules, and regulations.

Our audit was not conducted for the purposes of expressing an opinion on Amego's financial statements. We also did not assess the quality and appropriateness of program services provided by Amego under its state-funded contracts. Rather, our report was intended to report findings and conclusions on the extent of Amego's compliance with applicable laws, regulations, and contractual agreements, and to identify any operational and administrative processes, methods, and internal controls that could be made more efficient and effective.

AUDIT RESULTS

1. NON-REIMBURSABLE EXPENSES TOTALING AT LEAST \$27,130 CHARGED TO STATE CONTRACTS

We found that during fiscal years 2008 and 2009, Amego used at least \$26,025 in state funds to pay for credit card expenses for which there was inadequate documentation to substantiate the business nature of these expenses. We also found that during fiscal year 2008, Amego used state funds totaling \$1,105 to make donations to other organizations. According to state regulations, expenses such as these are unallowable and non-reimbursable under state-funded contracts.

The state's Operational Services Division (OSD), the state agency responsible for regulating and overseeing the activities of all the state's contracted human service providers, has promulgated regulations relative to certain costs that are non-reimbursable under state contracts. According to 808 Code of Massachusetts Regulations (CMR) 1.05, promulgated by OSD, the following are non-reimbursable costs under state contracts:

(12) Non-Program Expenses. Expenses of the Contractor which are not directly related to the social service Program purposes of the Contractor.

(23) Luxury Items. All costs associated with luxury items including, but not limited to luxury passenger automobiles as defined in the Internal Revenue Code section 4001 or 4002, airplanes, boats, vacation homes, alcoholic beverages, charitable contributions and donations, and all non-Program entertainment expenses.

(26) Undocumented Expenses. Costs which are not adequately documented in the light of the American Institute of Certified Public Accountants statements on auditing standards for evidential matters.

Further, 808 CMR 1.04 (1) establishes the following recordkeeping and reporting requirements with which all contracted human service providers such as Amego must comply:

The Contractor and its Subcontractors shall keep on file all data necessary to satisfy applicable reporting requirements of the Commonwealth..., and financial books, supporting documents, statistical records, and all other records which reflect revenues associated with and costs incurred in or allocated to any Program of services rendered under the Contract. The Contractor and its Subcontractors shall maintain records of all types of expenses and income or other funds pertaining to the Program paid to the Contractor by every source...

During our audit period, Amego allowed three members of its administrative staff, including its Executive Director, Comptroller, and Deputy Director, to use two of the agency's corporate

credit cards. However, Amego had not established any controls (e.g., formal written policies or procedures) over the use of these credit cards until November 2008 (fiscal year 2009). Further, our review of Amego's current credit card usage policy determined that it was inadequate in that it does not require users of Amego's credit cards to submit documentation to substantiate the business nature of each expense, does not establish a process whereby a member of Amego's staff would review each expense for reasonableness, and does not expressly prohibit the use of these credit cards for personal expenses.

Based on these internal control weaknesses, we selected a random sample of 325 credit card expenses totaling \$75,452 that were incurred by Amego's Executive Director, Comptroller, and Deputy Director during the two fiscal years covered by our audit and reviewed the documentation Amego maintained relative to these expenses. Our sample of these credit card expenses included the following:

- All 209 credit card expenses totaling \$50,699 incurred by Amego's Comptroller and Deputy Director during fiscal year 2008.
- All 81 credit card expenses totaling \$17,083 incurred by Amego's Comptroller and Deputy Director during the months of October, January, April, and July 2009.
- All 35 credit card expenses totaling \$7,670 incurred by Amego's Executive Director between February 1, 2009 and June 30, 2009 (the credit card was issued to him in January 2009).

Based on our review, we found that 144 of these expenses totaling \$26,025, or 34%, were inadequately documented. The inadequately documented expenses included expenses for which Amego either lacked any documentation relative to the expense or did not have invoices, receipts, or other documentation to substantiate the nature or business purpose of the expense. A summary of our analysis of Amego's credit card expenses for fiscal years 2008 and 2009 appears in the table that follows:

Summary of Inadequately Documented Credit Card Expenses

Fiscal Years 2008 and 2009

Staff Member	<u>Fiscal Year 2008</u>		<u>Fiscal Year 2009</u>		<u>Total (Both Fiscal Years)</u>	
	Number of Charges	Inadequately Documented Expenses	Number of Charges	Inadequately Documented Expenses	Number of Charges	Inadequately Documented Expenses
Executive Director	0	\$0	25	\$5,797	25	\$5,797
Comptroller	41	11,900	4	635	45	12,535
Deputy Director	<u>52</u>	<u>4,531</u>	<u>22</u>	<u>3,162</u>	<u>74</u>	<u>7,693</u>
Total	<u>93</u>	<u>\$16,431</u>	<u>51</u>	<u>\$9,594</u>	<u>144</u>	<u>\$26,025</u>

Examples of the inadequately documented expenses we identified include the following:

- During fiscal years 2008 and 2009, Amego paid six charges at Vinny T's Restaurant totaling \$1,346. The documentation that was available relative to these expenses indicated that these costs were incurred at meetings held by Amego's Board of Directors. The dates of the charges on the receipts that were available do in fact coincide with Amego's Board meeting dates; however, the Board meeting minutes did not note that the meetings were being held at this restaurant. Further, four of the six charges totaling \$982 had a receipt documenting the total charges but no itemized receipt indicating what was actually purchased or a list of attendees. There were no receipts for the remaining two expenses totaling \$364.
- On June 19, 2008 and September 25, 2008, Amego purchased a total of 22 GPS devices and accessories totaling \$1,268. However, the supporting documentation relative to the purchase of these items did not reflect the business purpose for this equipment (e.g., the reason for the purchase or who received these GPS devices).
- In February 2009, Amego's Executive Director paid for three expenses totaling \$213.62 in Jacksonville, Florida. These included an \$89.90 charge on February 5, 2009 at the Capital Grille, and on February 8, 2009, two charges were made at Chili's and the Hyatt Regency totaling \$44.27 and \$79.45, respectively. The supporting documentation maintained for these expenses did not indicate the business purpose for the charges.
- During fiscal year 2009, Amego's Executive Director charged six expenses totaling \$560 that he incurred during a trip to the state of Arizona, including a flight to Phoenix on May 21, 2009, a return flight from Las Vegas on May 27, 2009, a car rental, a hotel charge, and restaurant charges. The supporting documentation did not indicate the business purpose for the charges.

- During fiscal years 2008 and 2009, Amego’s Comptroller and Deputy Director incurred 40 charges at local restaurants totaling \$3,614 that lacked sufficient supporting documentation, as follows:
 - Six charges totaling \$355 had no supporting documentation.
 - Eighteen charges totaling \$2,095 had receipts but the receipts do not indicate the nature or business purpose of the meal or a list of individuals who were in attendance.
 - Seventeen charges totaling \$1,164 had receipts that reflected a business purpose for the meal, such as “lunch for staff,” “school meeting,” or “new hire lunch.” However, none of these receipts indicated who was in attendance.

In addition to the problems we identified with various credit card expenses during our review, we found that the agency charged state-funded contracts for various donations, as follows:

Donations Made By Amego During Fiscal Year 2008

Donations Made To	Fiscal Year 2008
Attleboro Police	\$ 250
Mansfield Firefighters	295
Mansfield Police	195
Plainville Firefighters	<u>365</u>
Total	<u>\$1,105</u>

Amego officials told us that they believed that all the credit card expenses and donations in question were appropriate. In addition, they stated that policies and procedures would be implemented to ensure that more detailed documentation be included to support credit card expenditures.

Recommendation

Amego should reimburse the Commonwealth the \$27,130 in unallowable credit card and donation expenses it charged against its state contracts during the period covered by our audit. Further, Amego should take measures to improve its internal controls over the use of its corporate credit cards and charitable donations so that in the future, it does not charge any non-reimbursable credit card and donation expenses to its state-funded contracts.

Auditee's Response

In response to this result, Amego officials provided the following comments:

It is mentioned in the report that Amego's Executive Director paid for expenses at a conference in Jacksonville, Florida. This conference was an autism conference sponsored by the International Association for Applied Behavior Analysis. Documentation confirming attendance at this conference is available. This conference also represents networking and business development opportunities for Amego.

The Executive Director attended the annual conference of The International Association for Applied Behavior Analysis in Phoenix, AZ from May 21st to May 24th, 2009. While attending this conference expenses for meals, rental car, and hotel were incurred. Expenses for the hotel were reduced significantly by not staying at the conference hotel and using a reduced rate hotel bidding service during the conference. On May 24th, the Executive Director flew to Las Vegas, NV at his own expense. He stayed in Las Vegas for three days and charged no expenses to Amego, Inc. during the stay. He flew from Las Vegas to Providence at Amego's expense as he would have been returning from the conference in Phoenix. The flight from Las Vegas was a lower rate than the return flight from Phoenix.

Auditor's Reply

In its response, Amego asserts that some of the expenses incurred by the agency's Executive Director that we question in our report were in fact related to business conferences and were therefore appropriate. However, as detailed above, the agency could not provide us with adequate documentation to substantiate this assertion. Consequently, we again recommend that Amego should reimburse the Commonwealth the \$27,130 in unallowable credit card and donation expenses it charged against its state contracts during the period covered by our audit. Further, Amego should take measures to improve its internal controls over the use of its corporate credit cards and charitable donations so that in the future, it does not charge any non-reimbursable credit card and donation expenses to its state-funded contracts. In this regard, during our audit, Amego officials informed us that the agency is in the process of implementing policies and procedures to ensure that more detailed documentation will be maintained relative to all credit card expenditures. We believe such actions are necessary and responsive to our concerns in this area.

2. AMEGO DID NOT USE AN APPROVED METHODOLOGY TO ALLOCATE PAYROLL-RELATED EXPENSES TOTALING APPROXIMATELY \$563,409.

The state's Operational Services Division has established guidelines that require all contracted human service providers such as Amego to allocate indirect administrative expenses to programs using one of four accepted cost allocation methods. The purpose of using one of these four approved methods is to ensure that all of an agency's indirect costs are allocated to its programs in an equitable and consistent manner so that the results of each program's activities are accurately reported in the financial statements it files with the Commonwealth. However, during the period covered by our audit, Amego did not use one of the four approved cost allocation methodologies when it allocated the payroll-related expenses for eight administrative staff members totaling at least \$563,409 to its programs. As a result, there is inadequate assurance that the results of Amego's program activities as reported in the financial statements that it submitted to the Commonwealth during the period covered by our audit are accurate.

In providing program services, agencies such as Amego incur both direct costs, which can be attributable to a specific program or activity, and indirect costs, which are more general in nature and cannot be associated with one specific program or activity. Because indirect costs cannot be attributable to a specific program or activity, they need to be allocated to each of an agency's activities using a cost allocation plan. OSD has established regulations for the allocation of indirect expenses against state contracts. According to 808 CMR 1.02, contracted human service providers are required to maintain a written cost allocation plan for indirect administrative expenses, as follows:

Administration and Support Costs (management and general) include expenditures for the overall direction of the organization, general record keeping, business management, budgeting, general board activities, general legal expenses and related purposes. "Overall direction" includes the salaries and expenses of the chief officer of the organization and the chief officer's staff. If such staff spends a portion of its time directly supervising fundraising or Program service activities, such salaries and expenses are considered indirect fundraising or Program costs and should be prorated (allocated) among those functions by position title or type of expense. Allocation of program support expenses...must be made using a written cost allocation plan in accordance with GAAP as described in the sections covering Administrative Costs and Costs which pertain To Certain Functions Allocation of Administrative expenses that pertain to the "Overall Direction" of the organization to programs...must also be made by utilizing a written costs allocation plan using the same principles as noted above or as described in the Direct Method for allocating indirect costs to federal programs of OMB [Office of Management and Budget] Circular A-122.

OSD has also issued guidance in its UFR Audit & Preparation Manual (Manual) to all contracted human service providers. In terms of allocating indirect administrative costs, the Manual states, in part:

Allocation of Administration (only costs related to overall direction of the organization) to programs shall be accomplished using one of the four following methods, only after direct and joint costs have been distributed to programs and supporting services:

- ***Simplified Allocation Method:*** *This method allocates indirect administration costs utilizing a distribution percentage derived simply from the total employee compensation and related expenses*
- ***Modified Direct Method:*** *Indirect administration costs are distributed using a distribution percentage derived from direct and joint costs that have been distributed to programs and supporting fundraising services.*
- ***Multiple Allocation Base Method:*** *Indirect administration costs are distributed to programs using multiple methods. Use of this method requires prior approval from OSD and the provider's principal purchasing agency. ...*
- ***Approved Federal Indirect Cost Rate:*** *Contractors receiving federal assistance which have an approved federal indirect cost rate may utilize the federal approved method of cost allocation that was used to establish the approved federal indirect cost rate.*

The purpose of using one of these four approved methods is to ensure that all of an agency's indirect costs are allocated to its programs in an equitable and consistent manner so that the results of each program's activities are accurately reported in the financial statements filed with the Commonwealth.

We determined that during our audit period, Amego had implemented a cost allocation plan in accordance with OSD regulations. However, during fiscal year 2008, Amego allocated payroll-related costs totaling approximately \$563,409 relative to eight of its administrative staff to its programs without using the methodology it specified in its cost allocation plan or using one of OSD's approved methods. The following table illustrates the percentage of compensation expenses for the eight individuals in question that were allocated to Amego's three state-funded programs.

Payroll Expense Allocations to Adults and Children's State-Funded Programs

Fiscal Years 2008 and 2009

Job Position	% of Payroll Expenses Allocated to Children's Programs (2)	% of Payroll Expenses Allocated to Adult Program (1)
Program Manager of Clinical Services	60%	40%
Program Director of Clinical Services	60%	40%
Director of Social Services	60%	40%
Staff Development Coordinator	60%	40%
Director of Health Services	50%	50%
Maintenance Director	50%	50%
Maintenance #1	100%	N/A
Maintenance #2	N/A	100%

Amego's Comptroller told us that the payroll-related expenses associated with these eight individuals were allocated to the three programs in question based upon the amount of time these individuals spent in these programs. However, the agency could not provide us with any documentation to substantiate the reasonableness of this allocation methodology, such as a study of documented time records or activity reports completed by these staff members. Further, we found that Amego does not require its administrative staff members to document the time they spend in each program. Consequently, the agency is unable to conduct any type of study that could be used to establish a reasonable basis for allocating its administrative staff payroll-related expenses to its programs. Because Amego did not use one of the four approved cost allocation methodologies when it allocated these payroll-related expenses, there is inadequate assurance that the results of Amego's program activities as reported in the financial statements that it submitted to the Commonwealth during the period covered by our audit are accurate.

Recommendation

In the future, Amego should take measures to ensure that it allocates all of its indirect costs in a manner consistent with OSD guidelines.

Auditee's Response

Amego did not provide any comments relative to this audit result.

3. INTERNAL CONTROLS OVER CERTAIN AGENCY OPERATIONS NEED TO BE STRENGTHENED

We found that Amego had not developed and implemented an adequate system of internal controls over various aspects of its operations. For example, during fiscal years 2008 and 2009, Amego lacked a documented accounting manual, did not have procedures that ensured that it accurately reported all required information in the financial statements it filed with OSD, and did not take measures to address all of the recommendations that had been made by its private accounting firm.

According to Generally Accepted Accounting Principles (GAAP), entities such as Amego should establish and implement an adequate internal control system within the organization to ensure that goals and objectives are met; resources are used in compliance with laws, regulations, and policies; assets are safeguarded against waste, loss, and misuse; and financial data are maintained, reported, and fairly disclosed in reports.

In order to comply with GAAP, Amego should have a documented comprehensive plan of internal controls describing its goals and the means by which these goals and objectives could be achieved. An effective internal control system would establish clear lines of authorization and approval for its various business functions, such as purchasing, contracting, asset management, payroll, and personnel. In addition, an entity's internal control system should be backed up with a set of detailed subsidiary policies and procedures that would communicate responsibilities and expectations to subordinate staff by providing employees with direction to complete various business operations, such as accounting, billings, cash receipts, accounts payable, human resources, and payroll. We found that in addition to the internal control problems we previously discussed, Amego had not established adequate internal controls over several other aspects of its operations. The following is a summary of the additional internal control deficiencies we identified during our audit.

a. Lack of a Documented Accounting System

Sound business practices advocate that entities such as Amego establish a proper accounting system that is documented in formal policies and procedures and a written accounting manual that describes the accounting system and the policies and procedures that are utilized in the agency's accounting process. Such a manual not only maintains the integrity of the accounting process and its continuity in case of staff turnover, but also establishes accountability of various operational activities. Further, the state's Executive Office for Administration and Finance (EOAF), the Office of the State Comptroller (OSC), and OSD have jointly issued Commonwealth Terms and Conditions for Human and Social Services (Contract Conditions), with which all contracted human service providers such as Amego must comply. According to these Contract Conditions, contracted service providers such as Amego are required to maintain records as follows:

The Contractor shall maintain adequate written policies and procedures for accounting, management and personnel activities...

However, during our audit we noted that Amego had not established formal written accounting procedures or an accounting manual. As a result, there is a higher risk that Amego's financial information may not be accurately recorded and reported.

b. Required Information Missing from Financial Statements Filed with the Commonwealth

As previously mentioned, OSD regulations require Amego to file a financial report entitled Uniform Financial Statements and Independent Auditor's Reports (UFRs) annually with OSD. During our review of Amego's fiscal year 2008 UFR, we identified the following reporting issues:

OSD's fiscal year 2008 UFR Audit and Preparation Manual identifies where certain expenses should be reported by human service providers in the UFRs they file with OSD. However, based on our review of the information contained in Amego's fiscal year 2008 UFR, we noted the following expenses that were incorrectly reported:

- a. The agency incorrectly reported certain temporary help services totaling \$18,038 as staff training expenses.
- b. The agency incorrectly reported the following expenses as fringe benefits:

Type of Expense	Total Expense
Workers' Compensation Insurance	\$135,530
Pre-Employment Physical Exams	13,224
Personal Property Indemnity Loss	338
Travel Reimbursement	5,233
Other	<u>170</u>
Total	<u>\$154,495</u>

- c. According to OSD's Manual, agencies such as Amego are required to prepare subsidiary schedules to UFRs that provide detail on various types and amounts of expenses. These schedules are to be submitted to OSD by the agency as part of its UFR filing. However, during fiscal year 2008, Amego didn't submit two of the required schedules, including a compensation disclosure that details all compensation (salary, benefit packages, vehicles, consultant payments, loans, etc.) from the entity and its related parties/affiliates to organization principles, which totaled \$10,152 during fiscal year 2008, and a schedule that showed all of the agency's state and federal non-reimbursable expenses, which totaled \$20,716 during this fiscal year.

c. Amego Did Not Fully Implement All of the Recommendations Made by its Private Accounting Firm

On October 10, 2008, Amego's private accounting firm issued a management letter to the agency's Board of Directors that contained recommendations on improvements to the agency's internal controls. During our audit, we found that several of the recommendations made by Amego's private accounting firm had not been implemented by the agency, as follows:

- I. Bonding Insurance: In its report, Amego's private accounting firm stated:

The agency should consider obtaining bonding insurance for those employees who have access to cash receipts or disbursements, particularly for the administrative employees. We understand the agency has employee dishonesty insurance as part of its commercial coverage package with a \$100,000 limit. However, the agency should assess whether this coverage limit is adequate based on its budget and if there is a cost/benefit to increasing the coverage limit.

During our audit, we reviewed Amego's insurance policies and noted that the agency had still not obtained the recommended bonding insurance coverage in this area.

- II. Consumer Employees: In its report, Amego's private accounting firm stated:

The agency doesn't require I-9s and W-4 forms for consumer employees. Management should verify that these forms are not required with their legal counsel to ensure proper hiring requirements and documentation.

During our audit, we discussed this matter with Amego's Comptroller and Deputy Director. These officials told us that this matter was investigated by Amego but the agency has chosen to not require its consumers who work for and receive compensation from Amego to complete an IRS Form W-4 and MA Form M-4. During our audit, we determined that according to guidelines issued by the United States Citizen and Immigration Service (USCIS), Internal Revenue Service (IRS), and DOR, all newly hired employees must complete USCIS Form I-9 to satisfy immigration regulations and must complete an IRS Form W-4 and MA Form M-4, if applicable, to determine tax withholding liabilities. Further, employers who do not comply with these requirements may be subject to fines and penalties.

During fiscal year 2008, Amego paid \$54,500 in wages to 59 of the consumers in its programs that also performed work at Amego. The W-2 forms provided to these 59 individuals indicated that FICA taxes (social security and Medicare taxes) were withheld as required. However, the agency did not require these 59 individuals to complete IRS Forms W-4 or MA Forms M-4, and was therefore unable to determine whether federal and state income taxes were to be withheld.

III. Abandoned Property Policy: In its report, Amego's private accounting firm stated:

The agency has forty outstanding checks totaling \$6,465 on the bank reconciliations that have been outstanding for more than six months as of June 30, 2008. The agency does not have a formal abandoned property policy. [According to] Massachusetts General Laws 200A (Abandoned Property Regulations) Management should develop a policy relating to the abandoned property laws to ensure compliance. The policy should include an annual review of accounts (outstanding checks, vendor overpayments and any accounts held on behalf of others) and procedures to notify the owner of the asset. The policy should also address who is responsible for filing the annual filing.

During our audit, Amego's Comptroller told us that he had not yet implemented this recommendation.

IV. Long-Term Operating Budget and Strategic Plan: In its report, Amego's private accounting firm stated:

During 2008 and 2007, the agency had an operating surplus of approximately \$53,000 and \$154,000, respectively. Based on these changes from year-to-year, the

agency should develop a long-term operating budget (3-5 years). This will help to more clearly define its long-term financial goals and enable the agency to more closely monitor its progress towards its long-term strategic goals, maintain facilities, and meet debt service agreements. As part of this budget, the agency should project any major capital improvements into a capital needs section of the budget.

During our audit, Amego's Comptroller told us that Amego is currently developing a strategic plan.

V. Segregation of Duties: In its report, Amego's private accounting firm stated:

During our walkthrough of the agency's payroll procedures, we noted that the Comptroller is the sole person involved with the processing of payroll and its review. The Comptroller prepares the payroll, processes changes, and receives the payroll registers. The agency should consider having the Executive Director receive the unopened payroll registers, including a payroll change report for all salaried employees to aid in the segregation of duties, as well as a general review of payroll.

According to the Amego's Comptroller, this recommendation has not been implemented because he has been unsuccessful in hiring additional staff to segregate certain duties. During our audit, we observed that Amego's Comptroller continues to perform all payroll functions without any oversight.

Recommendation

Amego should immediately address the internal control deficiencies we identified and implement its independent auditor's recommendations on internal controls it identified during its fiscal year 2008 annual audit to ensure that it complies with state and federal regulations.

Auditee's Response

In response to this result, Amego officials provided the following comments:

It is reported that Amego has not implemented all of the recommendations made by our private accounting firm. This statement is true and Amego has been in the process of revamping policies and procedures across the agency and recommendations from the accounting firm are being implemented during the process. Amego will secure Bonding Insurance at September's renewal ...

There has also been significant improvement of segregation of duties in the business office. In February of 2010 a dedicated payroll clerk was hired to oversee payroll operations. There have also been additional resources dedicated to billing in this department.

Auditor's Reply

In its response, Amego agrees with our conclusion that it did not implement all of the recommendations made by its private accounting firm but added that it is taking measures to address our concerns relative to this matter. However, Amego did not comment on the issues we identified with its accounting system and the information in its financial statements. Consequently, we again recommend that Amego fully implement our recommendations relative to these issues. This would include ensuring that it establishes a proper accounting system that documents formal policies and procedures and a written accounting manual that describes the accounting system and the policies and procedures that are utilized in the agency's accounting process. In addition, Amego should ensure that the UFRs that it files with OSD are accurate and contain all the required information.

APPENDIX

Amego, Inc. Program Descriptions

Amego provides educational, vocational, work and community-based residential services to approximately 82 children and adults with autism and related disorders throughout southeastern Massachusetts through three state-funded programs.

Employment Support

Amego provides employment opportunities through a variety of training and work experience based on the interest, aptitude, and desire of the individuals they support. This program is funded through state contracts with the Department of Developmental Services.

Adult Residential Network

Amego provides residential services that include room and board, support, counseling, and training in daily living, educational and social skills, supervision, behavioral management, and recreational activities for adults. This program is funded through state contracts with the Department of Developmental Services.

Children's Residential & Day Special Education

Amego provides residential, ancillary, and educational services for the children it supports. The agency's residential services include behavioral, educational, and daily living assistance. The 12-month educational program provides the children it serves with academic and vocational skills. The educational program is licensed by the Department of Early Education and Care and approved by the Department of Elementary and Secondary Education.