



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued October 8, 2015

Brockton Day Nursery, Inc.

For the period July 1, 2013 through June 30, 2014





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October 8, 2015

Mr. Craig Harsfield, President
Board of Directors
Brockton Day Nursery, Inc.
243 Crescent Street
Brockton, MA 02302

Dear Mr. Harsfield:

I am pleased to provide this performance audit of Brockton Day Nursery, Inc. This report details the audit objectives, scope, methodology, and conclusion for the audit period, July 1, 2013 through June 30, 2014. My audit staff discussed the contents of this report with management of the organization, whose comments we considered in drafting this report.

I would also like to express my appreciation to Brockton Day Nursery, Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

BDN	Brockton Day Nursery, Inc.
CMR	Code of Massachusetts Regulations
OSA	Office of the State Auditor
OSD	Operational Services Division

EXECUTIVE SUMMARY

Brockton Day Nursery, Inc. (BDN) is a not-for-profit organization that provides comprehensive childcare and support services to children and families. BDN's total revenue for fiscal year 2014 was \$2,733,802, of which \$2,226,696 was from state contracts, primarily with the Department of Early Education and Care.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of BDN for the period July 1, 2013 through June 30, 2014. The purpose of this audit was to assess whether BDN's board of directors was constituted, and performed various oversight functions, in a manner consistent with applicable regulations, contractual terms and conditions, and other guidance. This audit was conducted as part of OSA's ongoing efforts to audit human-service contract activity by state agencies and to promote accountability, transparency, and cost effectiveness in state contracting.

Our audit revealed no significant instances of noncompliance that must be reported under generally accepted government auditing standards.

OVERVIEW OF AUDITED ENTITY

Brockton Day Nursery, Inc. (BDN), located in Brockton, Massachusetts, was formed in 1907 and incorporated as a Massachusetts not-for-profit corporation in 1952. BDN's total revenue for fiscal year 2014 was \$2,733,802, of which \$2,226,696 was from state contracts, primarily with the Department of Early Education and Care. BDN provides children age 0 to 13 with access to comprehensive childcare and support services in Brockton and the surrounding communities. According to its website, BDN serves approximately 380 children annually.

Each fiscal year, state agencies purchase more than \$2 billion in services from private human-service organizations that are governed by boards of directors. The board of directors of a human-service provider is the primary organizational body that ensures that the provider meets its operational objectives in the most effective and efficient manner. Board members perform a variety of key fiduciary functions for organizations, including overseeing overall operation; setting policies and procedures to ensure that objectives are met; hiring and evaluating the top executive; and ensuring compliance with established laws, regulations, policies and procedures, and contractual obligations. According to BDN bylaws, board members serve for a term of three years and there are to be no more than 34 members. As of June 30, 2014, BDN had 12 board members.

Guidance for operations of boards of directors is found in various sources, including Chapter 180, Section 6A, of the Massachusetts General Laws, commonly referred to as the Public Charities Law; the Massachusetts Office of the Attorney General's Guide for Board Members of Charitable Organizations; the state's Commonwealth Terms and Conditions for Human and Social Services; Title 808 of the Code of Massachusetts Regulations; and the Operational Services Division's UFR¹ Auditor's Compliance Supplement and UFR Audit & Preparation Manual.

1. Each year, agencies that operate social programs and contract with various Commonwealth departments must prepare financial statements called Uniform Financial Statements and Independent Auditor's Reports, or UFRs, and file them electronically with the Operational Services Division.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Brockton Day Nursery, Inc. for the period July 1, 2013 through June 30, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer and the conclusion we reached regarding each objective.

Objective	Conclusion
1. Does the organization comply with the Commonwealth Terms and Conditions for Human and Social Services, which prohibit management personnel and their immediate families from composing more than 30% of the board's voting members?	Yes
2. Has the board complied with the Commonwealth Terms and Conditions for Human and Social Services pertaining to the organization's top executive by conducting an annual performance review and setting that person's compensation by formal vote?	Yes
3. If certain fringe benefits or bonuses were awarded, did the board comply with Operational Services Division (OSD) provisions found in the UFR Auditor's Compliance Supplement that is issued pursuant to 808 Code of Massachusetts Regulations (CMR) 1.00?	Yes

We determined that internal controls over the following areas were relevant to our audit objectives:

- compliance with the Commonwealth Terms and Conditions for Human and Social Services regarding board composition and executive performance reviews and compensation
- compliance with OSD guidance on fringe benefits and bonuses

We assessed the relevant controls identified above.

To accomplish our objectives, we identified and reviewed applicable laws, rules, and regulations pertinent to our audit objectives, including regulations published by OSD's Division of Purchased Services (808 CMR) and the Commonwealth's Terms and Conditions for Human and Social Services.

We also performed the following activities:

- interviewing key officials
- reviewing the board of directors' meeting minutes
- obtaining and reviewing the organization chart
- reviewing organization audit reports prepared by independent public accountants
- making inquiries regarding additional compensation provided to the top executive and whether any additional fringe benefits or bonuses were paid
- obtaining any specific policies or procedures pertinent to the board of directors and the definition of a quorum
- obtaining copies of top executives' annual performance reviews
- obtaining a copy of the Internal Revenue Service Form W-2 for the top executive

Since the documents we obtained to support our findings and conclusions were hard copies, we did not need to address the reliability of electronically processed data.

CONCLUSION

For the areas reviewed that were related to our audit objectives, we did not identify any significant deficiencies warranting attention by those responsible for governance and state oversight agencies. Specifically, management personnel and their immediate families did not compose more than 30% of the voting members of Brockton Day Nursery, Inc.'s board of directors, and the board reviewed the executive director's performance during the audit period. (The executive director did not receive a salary increase that required a board vote during our audit period.) Further, the level of other compensation provided to the executive director and charged to state contracts was within the limits prescribed by state regulations and was properly reported by the organization.

APPENDIX

Brockton Day Nursery, Inc. Fiscal Year 2014 Board of Directors

Officers

Craig Harsfield (President)

Marian McGrath (Vice-President)

Linda Milne (Clerk)

Yashin Cerritos (Treasurer)

Members

Elizabeth Barry

Shaynah Barnes

Thomas Donahue

Mark Linde

Ray Henningson

Paul Schreiber

Jim Smith

Jessica Wainwright