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NO. 1999-4392-3

INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE CONCORD-ASSABET FAMILY AND ADOLESCENT SERVICES INCORPORATED JULY 1, 1996 THROUGH DECEMBER 31, 1999

OFFICIAL AUDIT REPORT

JUNE 19, 2000

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Concord Assabet Family and Adolescent Services Inc., (CAFAS), which was originally organized in 1976 as the Concord Assabet School, Inc., is a nonprofit organization providing comprehensive mental health and human services for children and adolescents. Our audit, which covered the period July 1, 1996 through December 31, 1999, examined the accounts and certain activities of CAFAS under its state contracts. Our objectives were to: (1) determine whether CAFAS had established an adequate system of management controls over revenues, expenses, and fixed assets and (2) assess CAFAS'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 over $373,450 in questionable and inappropriate costs, questionable management practices, and inadequate internal controls over $1.7 million in inventory, as detailed below.

: During fiscal year 1997, the Department of Social Services (DSS) awarded Concord Assabet Family and Adolescent Services Inc., (CAFAS) a cost reimbursement contract to operate a Bridge Homes Program (BHP) in Dedham and Waltham. However, our review of the documentation maintained by CAFAS relative to this program identified a number of problems with certain expenses CAFAS billed against the contract that funded its BHP. Specifically, CAFAS billed and received payments from DSS totaling $45,000 for consultant services that CAFAS claimed were provided to the BHP during the period April through June 1997. However, based on the documentation we reviewed and on our interviews with former and current CAFAS employees, CAFAS did not actually incur this $45,000 in consultant expenses. Additionally, during the period April 1, 1997 through June 30, 1998, CAFAS billed and received reimbursements from DSS totaling $478,111 for direct care/support staff costs in its BHP. Included in this amount was $151,617 that CAFAS billed for direct care/support staff costs during the period April 1, 1997 through October 31, 1997. However, CAFAS did not begin providing services to consumers until November 1997 at the Waltham site and February 1998 at the Dedham site. Therefore, the propriety of the $151,617 in billings for direct care/support staff services during a period when there were no consumers in these programs who could have benefited from these services is questionable. In fact, several current and former CAFAS employees for whom the agency billed DSS a total of $53,061 of this $151,617 in direct care/support staff services stated that they did not perform $32,605 of additional services. We also found that CAFAS billed and received reimbursements from DSS totaling $6,094 for direct care/program support personnel costs in excess of what it actually paid for these services. As a result, we question the reasonableness of at least $38,699 ($32,605 plus $6,094) of the $478,111 direct care/program support costs billed by CAFAS during this period.

: During the period July 1, 1996 through December 31, 1998, CAFAS allowed 18 members of its administrative staff to use corporate credit cards to pay for over 2,000 expenses totaling $258,711. We examined $243,298, or

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INTRODUCTION

Background

Concord Assabet Family and Adolescent Services Inc., (CAFAS) was originally organized on November 22, 1976, as the Concord Assabet School, Inc., a residential school for the purposes of offering vocational and academic programs and special education and therapeutic services to eligible individuals. On December 1, 1994, the Concord Family Service Society Inc., merged with Concord Assabet Adolescent Services, Inc., (formerly Concord Assabet School Inc.), with the surviving company being named Concord Assabet Family and Adolescent Services, Inc. On October 24, 1996, CAFAS assumed the operation of the Brighton-Allston Mental Health Association, Inc., (BAMHA), a licensed outpatient mental health clinic located in Boston that provides comprehensive services for children, families, and adults. Beginning with the fiscal year ended June 30, 1998, BAMHA's operating results and other financial information have been consolidated with CAFAS's.

During the period covered by our audit, CAFAS was providing a variety of mental health and human services for children and adolescents in various programs, including residential and day schools, emergency shelters, group homes, and outpatient mental health clinics. (A description of the programs operated by CAFAS during our audit period appears in the Appendix to this report.) In addition to operating its state-funded human service programs, CAFAS also operates the Carlisle Institute, an international institute promoting the global exchange of information in the fields of education and child and family development. On March 16, 1996, CAFAS obtained the exclusive rights under an agreement with a company called SPIN Holland to provide SPIN Program training services through the Institute. This agreement was for a period of three years, and was renewable for an additional three years upon CAFAS's providing written notice to SPIN Holland. The Institute has further developed the SPIN Program into a national training program called SPIN USA that utilizes two components to certify professionals in the use of a communication-enhancing method employing video analysis and feedback as part of family intervention and therapy. CAFAS recently sold licensing rights to SPIN Program training to three other organizations: Victim Services, Inc., a leading agency in New York City with expertise in domestic violence; the Presbyterian Child Welfare Agency in Kentucky; and Para Los Niños, a family service agency based in Los Angeles, California. Also, CAFAS is currently negotiating the sale of additional licensing rights to agencies in Saint Louis, Missouri and Orlando, Florida and expects to finalize these contracts and initiate services to these agencies in the near future.

During our audit period, CAFAS received funding from the following sources:

Concord Assabet Family and Adolescent Services Inc.
Summary of Revenue*
July 1, 1997 through June 30, 1999

		Fiscal Year	
Revenue Source	1997	1998	1999
Gifts and Contributions	$ 835,040	$ 719,056	$ 697,768
Grants	663,984	314,980	351,945
Free Use of Assets-Commonwealth Capital budget	53,289	-	-
Department of Mental Health (DMH)	128,397	398,547	235,186
Department of Social Services (DSS)	2,394,475	4,097,326	4,234,749
Department of Youth Services (DYS)	11,940	23,072	15,258
Office of Child Care Services (OCCS)	-	-	2,392
Department of Education (DOE)	518,171	489,722	487,214
Subcontracted – Massachusetts Government	161,735	163,171	181,880
Non-Mass. State and Local Government payments	2,655	-	-
POS – 3rd Party Client Fees	1,412,473	203,728	691,024
SPED – Massachusetts and Non-Massachusetts Government Payments	1,300,423	1,965,036	1,748,777
SPED – 3rd Party Client Fees	39,487	18,246	391,829
Non POS and SPED Fees Client Fees	451,615	1,794,361	1,150,982
Client Resources	1,517	-	-
Medicaid	39,705	1,143,576	640,534
Private Client Fees	-	554	4,449
Investment Revenue Unrestricted	56,183	38,364	59,964
Realized Investment Revenue Unrestricted	140,206	83,850	27,193
Gain/Loss on Sale of Asset	-	65,424	(1,141)
Other Revenue	591,225	298,803	334,346
Total	$8,802,520	$11,817,816	$11,254,349

*This information was extracted from CAFA's Uniform Financial Statements and Independent Auditor's Reports (UFR).

On August 11, 1998, the Office of Child Care Services (OCCS), the state agency authorized to regulate child care service providers who operate residential facilities within the Commonwealth, issued a Notice of Sanctions on the licenses for CAFAS's residential schools located in Lexington, Concord, and Watertown. This Notice of Sanctions was issued because "OCCS determined that licensee's [CAFAS's] violations of OCCS's regulations, policies or applicable law constitute a risk to the health, safety, or welfare of children."

In a letter dated August 11, 1998 from OCCS to CAFAS's former Chief Executive Officer, OCCS stated, in part:

> From October 1997 through July 1998, the Office of Child Services (OCCS) received numerous incident reports and complaints alleging numerous regulatory violations at Licensee's residential care programs located in Watertown, Lexington, and Concord Massachusetts. In response, OCCS representatives conducted investigations at Licensee's three residential programs. Based on the representativeness and seriousness of the regulatory violations found by OCCS during those investigations, OCCS issues the enclosed Notice of Sanctions (Sanctions). . . .

The sanctions detailed in this notice included the following:

1. Freeze Enrollment and Admissions: Upon receipt of this Notice, Licensee shall not admit or enroll any new children into the Concord, Watertown and Lexington programs until OCCS has determined that each of Licensee's programs has complied with the regulations and the sanctions contained in this order. Within three days of receipt of this Order, Licensee shall submit a complete list of the children and parents and/or guardian contact enrolled in Licensee's Concord, Watertown and Lexington programs to OCCS.

2. Staffing Patterns: Immediately upon receipt of this Notice, Licensee shall ensure that a female staff person is assigned the position of the overnight, awake staff person in the Concord facility.

3. Staff Training: Immediately upon receipt of this Notice, Licensee shall obtain training from DSS for all Licensee's staff members and administrators which shall, at a minimum, address the following issues: Licensee's abuse and neglect policy, and identifying and reporting suspected abuse to the Department of Social Services and the Office of Child Care Services. The training will include at least two sessions of a minimum of two hours each and all staff members and administrators will sign attendance sheets for the training sessions.

   A fourth sanction was also imposed by OCCS, which is paraphrased as follows:

4. Hire a consultant to provide the following issues: (1) provide to Licensee consultation technical assistance in operating a residential school for adolescent females and (2) assist Licensee in creating an adequate compliance plan to address the non-compliance identified in this order. The consultant must have a minimum of five years documented experience working with emotionally disturbed adolescent females in a residential setting, and have a minimum of three years documented experience directing a residential care facility servicing emotionally disturbed adolescent females.

In response to the sanctions issued by OCCS, in August 1998 CAFAS implemented a Corrective Action Plan (CAP) to address the problems outlined in the sanctions. This CAP consisted of the following changes:

<u>Freezing Enrollment and Admissions</u>: By August 12, 1998 admission to all three programs was frozen.

<u>Reforming Staff Patterns</u>: On August 12, 1998, a notice was provided to residential programs stating the overnight staffing shifts had changed. This notice also stated that there should never be a male staff person on duty during an overnight shift when female students or clients were in residence.

<u>Proper Staff Training</u>: The agency hired a Licensed Social Worker (LSW) as the agency's first Director of Training. As of August 13, 1998, a training program was approved by DSS for the personnel within the homes.

<u>Hiring of a Consultant</u>: A consultant was hired to address the issues in OCCS's Notice of Sanctions. The new consultant began working within CAFAS as of August 7, 1998.

<u>Hiring of a Medical Consultant</u>: In May 1998, CAFAS hired a medical consultant. At the suggestion of OCCS, a Registered Nurse (RN) was retained. In addition, the RN submitted a detailed activities log outlining her progress. She was also responsible for composing a protocol for the administration outlining the proper way to distribute medication to consumers of the program. Furthermore, she implemented a training program for the staff to follow.

In addition to these changes, CAFAS also planned to revise its staff orientation program, switch restraint methods, and make other smaller refinements to its residential programs. Furthermore, the state's Executive Office of Health and Human Services (EOHHS), in collaboration with the Commissioners of DSS and OCCS, placed an experienced Department of Youth Services (DYS) manager in the Concord school. This appointment was for 60 to 90 days in the capacity as Acting Director, with the complete authority to make all operational decisions of the school. The appointment was made per a letter of agreement dated July 14, 1999, signed by CAFAS's former Chief Executive Officer and the Commissioners of DSS and OCCS.

As a result of CAFAS's actions in this matter, OCCS removed all sanctions against CAFAS's Lexington school in October 1998. In addition, on December 14, 1999, OCCS notified CAFAS that its Concord school had satisfied the terms of OCCS's Notice of Sanctions, and on January 11, 2000, OCCS removed all sanctions against this facility. The DYS manager at the Concord school was able to leave in September of 1999 due to the progress made within the residential schools. However, as of the end of our audit fieldwork, the Watertown school was still under sanctions by OCCS.

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of CAFAS during the period July 1, 1996 to December 31, 1999. However, in some instances it was necessary for us to extend the period covered by our audit testing to both prior and subsequent periods of our audit in order to adequately examine certain transactions that were selected for testing during our review.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included such audit procedures and tests as we considered necessary to meet these standards.

Our audit procedures consisted of the following:

1. A determination of whether CAFAS had implemented effective management controls, including:
    - Processes for planning, organizing, directing, and controlling program operations;
    - Policies and procedures to ensure that resource use is consistent with laws and regulations; and
    - Policies and procedures to ensure that resources are safeguarded and efficiently used.
2. An assessment of CAFAS'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 system of management controls established and implemented by CAFAS 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

CAFAS's accounting system. We used this assessment in planning and performing our audit tests. We then held discussions with current and former CAFAS officials as well as the officials from the state's Operational Services Division (OSD), and reviewed organization charts and internal policies and procedures, as well as all applicable laws, rules, and regulations. We also examined CAFAS's financial statements, budgets, cost reports, invoices, and other pertinent financial records to determine whether expenses incurred under its state contracts were reasonable, allowable, allocable, properly authorized and recorded, and in compliance with applicable laws, rules, and regulations.

Our review was not made for the purpose of forming an opinion on CAFAS's general-purpose financial statements. We also did not assess the overall quality and appropriateness of the program services by CAFAS under its state-funded contracts. Rather, our report was intended to report findings and conclusions on the extent of CAFAS's compliance with applicable laws, rules, and regulations; the adequacy of CAFAS's performance; and specific financial processes, methods, and internal controls that can be made more efficient or effective.

AUDIT RESULTS

1. <u>Questionable Contracting Practices and Highly Questionable Contract Billings Totaling at Least $83,699 Relative to Bridge Homes Program</u>

During fiscal year 1997, the Department of Social Services (DSS) awarded Concord Assabet Family and Adolescent Services Inc., (CAFAS) a cost reimbursement contract to operate a Bridge Homes Program (BHP) in Dedham and Waltham. However, our review of the documentation maintained by CAFAS relative to this program identified a number of problems with certain expenses CAFAS billed against the contract that funded its BHP. Specifically, CAFAS billed and received payments from DSS totaling $45,000 for consultant services that CAFAS claimed were provided to the BHP during the period April through June 1997. However, based on the documentation we reviewed and on our interviews with former and current CAFAS employees, CAFAS did not actually incur this $45,000 in consultant expenses. Additionally, during the period April 1, 1997 through June 30, 1998, CAFAS billed and received reimbursements from DSS totaling $478,111 for direct care/support staff costs in its BHP. Included in this amount was $151,617 that CAFAS billed for direct care/support staff costs during the period April 1, 1997 through October 31, 1997. However, CAFAS did not begin providing services to consumers until November 1997 at the Waltham site and February 1998 at the Dedham site. Therefore, the propriety of the $151,617 in billings for direct care/support staff services during a period when there were no consumers in these programs who could have benefited from these services is questionable. In fact, several current and former CAFAS employees for whom the agency billed DSS a total of $53,061 of this $151,617 in direct care/support staff services stated that they did not perform $32,605 additional services. We also found that CAFAS billed and received reimbursements from DSS totaling $6,094 for direct care/program support personnel costs in excess of what it actually paid for these services. As a result, we question the reasonableness of at least $38,699 ($32,605 plus $6,094) of the $478,111 direct care/program support costs billed by CAFAS during this period.

The state's Operational Services Division (OSD), the agency responsible for regulating and overseeing the activities of contracted service providers such as CAFAS, has promulgated Code of Massachusetts Regulations (CMR) 1.05, which identifies specific expenditures that are nonreimbursable under state contracts. In this regard, 808 CMR 1.05(26) identifies the following as nonreimbursable costs:

> Costs which are not adequately documented in light of the American Institute of Certified Public Accountants statements on auditing standards for evidential matters.

In April 1997, DSS awarded CAFAS a cost reimbursement contract with a maximum obligation of $1,007,335 to operate a BHP in Waltham and Dedham for the 15-month period of April 1, 1997 through June 30, 1998. OSD defines a cost reimbursement contract as:

> A payment arrangement under which the purchasing agency reimburses the provider for budgeted costs actually incurred in rendering the services specified in the agreement, up to the stated maximum obligation.

OSD has also published a document entitled, Uniform Financial Statements and Independent Auditor's Report (UFR) Auditor's Compliance Supplement under 808 CMR 1.00, which provides further guidance on cost reimbursement contracts, as follows:

> The cost reimbursement pricing structure reflects a purchase arrangement in which the purchasing agency pays the contractor for budgeted costs that are actually incurred in delivering the services specified in the contract, up to a stated maximum obligation. In cost reimbursement situations, any budgeted cost that is not actually incurred, including the allocation of administration can neither be billed by the contractor nor reimbursed by the purchasing agency.

Under the terms and conditions of this contract, CAFAS was required to develop, implement, and manage a BHP, which was a new program model designed by DSS to strengthen the department's foster care system. This program consists of small group homes in a noninstitutional family-like setting affording the opportunity to provide an intensive level of therapeutic support and psychosocial assessment for children entering the DSS placement system for the first time. This program was to be available for children currently in foster care who have been unable to stabilize their behavior due to the complexity of their psychosocial needs and may require a greater level of therapeutic and diagnostic support on a short-term basis. The services in these programs are community-based with the primary goal of maintaining linkages and supports that are critical to a child's development. CAFAS's contract with DSS required it to develop, implement, and manage two of these homes within the geographical area of DSS's Metro Region.

During our audit, we reviewed the documentation maintained by CAFAS relative to the contract that funded its BHP and noted several significant problems with expenses charged by CAFAS against this contract, as follows:

a. Highly Questionable Consultant Costs Totaling $45,000 Charged against State Contracts: During fiscal year 1997, CAFAS billed and received payments totaling $45,000 from DSS for consultant services that it claimed it provided in its BHP. We reviewed the supporting documentation for the bills that CAFAS submitted to DSS for these consultant services and noted that the names of the six individuals who CAFAS said provided $35,000 of these consultant services were, at the time of our audit, either former or current full-time employees of CAFAS working in other CAFAS programs, as follows:

Full-Time Position in Other CAFAS Programs	Consultant Costs Billed by CAFAS*
Program Director, Center for Counseling Lowell	$10,000
Former Director of Winthrop School & the Group Home Program	5,000
Former Director of Concord Family Services	3,333
Former Program Director First Connections	3,333
Program Director of Adoption Program	3,334
Executive Director of Carlisle Institute	10,000
	$35,000

* An additional $10,000 was billed by CAFAS for a non-CAFAS employee for providing training for BHP employees during fiscal year 1997.

CAFAS officials stated that they used in-house personnel rather than outside consultants to provide these services because they believed these individuals collectively possessed the expertise needed to complete the required tasks. These officials also stated that they believed CAFAS's in-house staff could provide the services at a lower cost and could get the program operational in a more timely manner than outside consultants.

During our audit we interviewed five of the six individuals that CAFAS billed as consultants against the contract that funded its BHP. Based on these interviews, we identified the following significant problems with these billings and the assertions made by CAFAS's management relative to these expenses:

Center for Counseling (CFC) Program Director: During the period April 1, 1997 through June 30, 1997, CAFAS billed and received payments totaling $10,000 from DSS for consultant services the agency represented were provided in its BHP by the agency's Director of its CFC in Lowell. The invoice provided to the audit team by CAFAS as supporting documentation for these consultant services indicated that this individual provided 144 hours (approximately 12 hours per week) of consultant services at a rate of $69.44 per hour for various BHP program services, including implementing the program, interfacing with CFC Lowell staff, and providing orientation to new staff on the SPIN model of family therapy. On September 10, 1999, the Director of the CFC stated that CAFAS's Director of Outpatient Services asked her to be available to consult on an "as-needed basis" to provide a supporting role on early childhood intervention issues at the BHP. When we showed her the $10,000 invoice dated July 25, 1997 that CAFAS submitted to the audit team as supporting documentation for her purported consultant services, the CFC Director stated that she was asked by CAFAS's Director of Outpatient Services to submit this invoice to document the portion of her regular work day hours that should be allocated to the BHP by CAFAS on her attendance records. She further stated that this document was not an invoice for additional consultant services provided by her and that no additional compensation was provided to her by CAFAS from this invoice. In fact, she told us that the first time she was made aware of the fact that CAFAS used this document as supporting documentation to bill and be reimbursed by DSS for these consultant services was when CAFAS's CFO contacted her several days prior to our September 10, 1999 meeting to inform her that the audit team would be contacting her regarding this issue.

This individual's testimony indicates that she did not provide any additional consultant services to the BHP but rather merely allocated some of the hours she worked during her regular workday for which

CAFAS was already reimbursed by DSS. Moreover, since CAFAS could not provide us with any documentation to substantiate that it incurred this $10,000 in additional consultant expenses, we question the reasonableness of this $10,000 billing by CAFAS for these consultant services.

Winthrop School and Group Home Programs Director: From April, 1 1997 through June 30, 1997, CAFAS billed and received payments totaling $5,000 from DSS for consultant services that the agency claimed were provided in its BHP by the former Director of its Winthrop School and Group Home Programs. The invoice provided to the audit team as supporting documentation for these consultant services indicated that this individual provided 170 hours of consultant services at a rate of $29.41 per hour for such services as the development of curriculum and materials to support educational goals for the BHP program, the hiring and orientation of educational staff, and the training of child care and social work staff in curricula and educational strategies.

On September 10 and September 20, 1999, we interviewed CAFAS's former Director of the Winthrop School and Group Home Programs regarding these consultant billings. During the interview, this individual stated that she helped develop CAFAS's Request for Responses (RFR) issued by DSS for the BHP, provided staff training, assisted in property acquisitions, supervised the Program Director and support staff, and wrote policies and procedures with the Director of Outpatient Services, who was her immediate supervisor for this program. When we showed her the undated invoice totaling $5,000 that CAFAS provided to the audit team as supporting documentation for this $5,000 billing for consultant services purportedly rendered by her in the BHP, the former Program Director stated that she was asked to prepare this document by either CAFAS's former Chief Executive Officer (CEO) or former Bridge Home Program Director to account for the number of her regular work hours per week that should be allocated on her time sheet to the BHP. She further stated that this invoice was not submitted by her to CAFAS for reimbursement for additional consultant services she rendered, and that she did not receive any additional payments for these services other than her regular weekly salary. She concluded by stating that the first time she was made aware that she was billed as a consultant in the amount of $5,000 by

CAFAS was by the audit team during our September 10, 1999 interview. Based on this individual's testimony that she did not provide additional consultant services and the fact that CAFAS could not provide us with documentation that it actually incurred the $5,000 in consultant expenses, we question the reasonableness of this $5,000 billing for consultant services by CAFAS.

<u>Adoption Program, Concord Family Services Program, and First Connection Program Directors</u>: During the period April 1, 1997 through June 20, 1997, CAFAS billed and received payments from DSS in the amount of $10,000 for consultant services that were purportedly provided by three members of its former full time staff -- the former Director of Concord Family Services Program, the Director of its Adoption Program, and the former Director of the First Connection Program -- for the agency's BHP. According to the invoice that CAFAS provided to the audit team as supporting documentation for this expenditure, each of these three individuals was billed at the rate of $3,333.33 for their services. According to documentation maintained by CAFAS, these services were completed in July of 1997 and included various meetings with the Bridge Home Program Director, assistance with BHP program development, and discussions of programmatic issues. During our audit, we were able to speak with two of these individuals--on September 9, 1999 with the Director of CAFAS's Adoption Program and on August 26, 1999 in a telephone conversation with the former Director of the agency's First Connection Program—who stated the following regarding these billings for purported additional consultant services.

The Director of CAFAS's Adoption Program stated that her only involvement in the BHP consisted of weekly conversations with her supervisor, the Director of Concord Family Services Program, relative to how the BHP could interface with the Adoption Program. According to this individual, these discussions would last for 10 to 15 minutes per week. When the audit team presented her with the invoice that CAFAS provided to the audit team as supporting documentation for her purported consultant services, she stated that she never received any additional funds other than her regular full-time salary and that she had never seen or been informed of the existence of this invoice until our interview.

The former Director of CAFAS's First Connection Program, who the audit team interviewed by telephone, stated that although she had conversations with the Director of the Concord Family Services Program regarding working in the BHP, she never actually worked in this program. She added that she provided no consultant services, received no payments, and had never submitted any bill for consultant services rendered to the BHP.

In addition to the representations provided to the audit team by these individuals, we reviewed CAFAS's payroll records relative to the hours worked by these three individuals during the period when CAFAS billed them as providing consultant services. Based on our review, we determined that 100% of the hours worked by these three individuals during this period was charged by CAFAS to programs other than the BHP. CAFAS could not provide us any documentation that substantiated that these three individuals worked any additional hours providing these consultant services. Consequently, based on the testimony of these individuals, the time records maintained by CAFAS relative to the hours worked by these three individuals, and the fact that CAFAS officials could not provide us with any records to substantiate that these individuals provided any consulting services to the BHP, we question the reasonableness of this $10,000 billing by CAFAS for these services.

<u>Carlisle Institute Executive Director</u>: During our audit, CAFAS officials provided the audit team with an invoice totaling $20,000 from the Carlisle Institute as supporting documentation for consultant services and training purportedly provided to the BHP and billed by CAFAS against the contract that funded this program. This invoice indicated that the Executive Director of the institute was being billed for $10,000 for consultant services and a representative of SPIN Holland was being billed for $10,000 for "training" for the BHP. According to this invoice, these consultant services were purportedly provided by these two individuals for program development related to the adaptation and integration of video home training and video interaction guidance into the BHP.

The Executive Director of the Institute stated that she worked countless hours to help integrate the SPIN process into the BHP model. She stated that this was a rare opportunity to showcase what SPIN could do by building the model from its inception and that she reported directly to the former CEO of CAFAS during this time. However, the Executive Director of the Institute stated that no contract was ever signed between her and CAFAS for her consultant services, and she could not provide us with any documentation, except the aforementioned invoice, to substantiate that these services were actually provided.

In addition, our review of attendance records maintained by CAFAS during the time she purportedly provided these consultant services revealed that the Executive Director spent approximately 57% of her normal workweek working on other Institute programs and the remaining 43% on SPIN USA. These attendance records did not indicate that any of her time was allocated to BHP. When the audit team requested the contract for the training performed by the consultant from SPIN Holland, the Executive Director of the Institute stated that this consultant did not provide "training" but worked as a consultant with her to integrate SPIN into the BHP. She also stated that no contract or supporting documentation was available to document the hours worked or the services provided by this individual. Additionally, CAFAS could not document that the $10,000 expenses were actually paid to this SPIN Holland consultant.

Given the fact that there was inadequate documentation to support this $20,000 that was billed by CAFAS against the cost reimbursement contract that funded its BHP programs for these consultant services and the fact that the Executive Director of the Institute stated that none of the training services that were billed by CAFAS were actually provided by the consultant from SPIN Holland, we question the reasonableness of this expense.

Regarding this matter, CAFAS officials claimed that all of these consultant services were in fact provided by these individuals after they had worked their regular work day schedule. However, the documentation we reviewed and testimony we received from both the current and former CAFAS employees that purportedly provided these services directly contradicts this assertion.

b. Highly Questionable Personnel Costs Totaling at Least $38,699: During fiscal years 1997 and 1998, CAFAS billed and received payments from DSS totaling $478,111 ($45,739 for fiscal year 1997 and $432,372 for fiscal year 1998) for direct care/support staff costs it said it incurred in operating its BHP. However, during our audit, we reviewed various clinical and financial records maintained by CAFAS relative to these billings, spoke with eight of the individuals CAFAS billed as providing these direct care/program support services, and identified at least $38,699 in highly questionable billings, as described below:

Our review of the payroll and financial records maintained by CAFAS revealed that, between April 1, 1997 and June 30, 1997, CAFAS overbilled its DSS contract by at least $6,094 for direct care/ program support personnel expenses, as follows:

CAFAS billed and received payments from DSS for the direct care/program support services of nine individuals for $3,487 in excess of what it actually paid these individuals, according to its payroll records. Since the contract that funds CAFAS's BHP is a cost reimbursement contract and the agency did not incur this $3,487, this amount represents overbillings by CAFAS against this contract. The table below summarizes these overbillings.

Position	Amount Billed	Actual Cost per CAFAS's Payroll Records	Amount over Actual Cost
Program Manager	$3,558	$3,512	$46
Program Director	4,039	3,846	193
Assistant Program Director	3,820	3,195	625
Supervising Professional	5,014	3,939	1,075
Supervising Professional	3,439	3,378	61
Program Secretarial	3,955	3,009	946
Program Secretarial	1,867	1,468	399
Program Secretarial	19	-	19
Program Support	373	250	123
Totals:	$26,084	$22,597	$3,487

In addition to the overbillings for the nine individuals noted above, there was a tenth individual (a former CAFAS employee) for whom CAFAS billed and received payments from DSS totaling $3,057 for her service as a full-time Licensed Social Worker (LSW) in CAFAS's BHP programs between the period April 1, 1997 through June 30, 1997. This individual stated that in June 1997, she was assigned to work 1/2 time in the BHP and 1/2 time in CAFAS's Shelter and Art Programs, which she continued to do until the BHP Waltham site opened in November 1997. Since, by this individual's own admission, she only worked half time in the BHP, we question the propriety of $1,529 ($3,057 ÷ 2) of the full-time salary CAFAS billed against the contract that funded its BHP for the services of this individual during this three-month period. CAFAS also billed and received reimbursements from DSS at a rate of 21.5% of salary expenses for the salary costs of the nine individuals noted above. This resulted in additional excessive reimbursements totaling $1,078 ([$3,487 + $1,529] x 21.5%) being provided to CAFAS.

In addition, our review of CAFAS's financial, clinical, and payroll records and our interviews with several present and former CAFAS employees revealed that CAFAS had overbilled the state at least an additional $32,605 for direct care/program support personnel costs in its BHP, as follows.

Between July 1, 1997 and February 1, 1998, CAFAS billed and received payments totaling $15,701 ($12,923 in salary plus $2,778 in fringe benefits) from DSS for the cost of another direct care LSW who, CAFAS claimed, provided services in the agency's BHP located in Dedham. However, on September 17, 1999, this former employee stated that, although she was assigned to this BHP during this period, she actually worked full time at CAFAS's Acute Clinic Program (ACP) in Acton until the BHP site in Dedham opened in February 1998. She added that, during this time, she was performing fee-for-service work at the ACP, under the direct supervision of the Director of Outpatient Services, and continued to counsel fee-for-service clients through April 1998. She stated that she left CAFAS in April 1998 because she was hired to work with young children in CAFAS's BHPs, not the older children in CAFAS's other programs.

We visited CAFAS's ACP and, to the extent possible, reviewed billing summaries, appointment calendars, and client activity records for the period July 1, 1998 through June 30, 1999. Client activity logs are completed by the CAFAS service provider (e.g., the LSW), and show the date and type of each counseling session, the length of each session, and who was counseled. This log is submitted by the CAFAS service provider to the agency's accounting department, which uses this information to issue bills. Appointment calendars are daily calendars used by the ACP secretarial staff to keep track of the dates and times CAFAS service providers are scheduled to see clients. The billing summary is a document produced by the ACP for the audit team that summarizes all the billings issued by the ACP during a period of time. This summary shows the name of the CAFAS service provider, date and type of services, amount billed, and the entity billed.

Based on our review of this documentation, we determined that the representations made to the audit staff by this former employee of CAFAS appeared to be accurate. For example, according to the client activity log maintained by CAFAS staff at its ACP, during January 1998, when this LSW was purportedly working full-time at the BHP, she conducted 74.5 counseling sessions for 18 clients (none of whom were BHP clients) at the ACP. CAFAS billed and received payments totaling $3,640 from third-party payors for these services. Even after the BHP in Dedham opened in February 1998, CAFAS records indicate that this individual did not work full-time in this program. For example, in February 1998, this individual conducted 22 counseling sessions at CAFAS's ACP, for which CAFAS billed and received payments totaling $1,880 from third-party payors.

During our audit, we attempted to review the client activity log for the period July 1 through December 31, 1998. However, this information was unavailable, and we were informed by the Director of Outpatient Services that the information on these logs was deleted from the agency's system. Consequently, the ACP was unable to produce for us a billing summary report for this period. Although the clinical appointment books for the ACP identified several occasions during November and December of 1997 on which the former LSW of the BHP was scheduled to see clients at the ACP, this information could not be confirmed due to the fact that client activity information was not maintained by CAFAS. Therefore, based on the testimony provided by this former CAFAS employee and the documentation maintained by CAFAS that was available for our review, we question the $15,701 in payroll costs billed by CAFAS for this employee during the period in question.

In addition, on June 30, 1998 CAFAS billed for and was reimbursed by DSS a total of $4,954 for the services of four clinicians at its BHP. However, our review of the payroll records for these four clinicians disclosed that only $280 of these costs was allocated by CAFAS to its BHP. The balance, $4,674, was allocated to other CAFAS programs. The CFO of CAFAS informed us that for billing purposes, he reallocated some of the costs associated with the services provided by these four clinicians in CAFAS Center for Counseling in Acton to the BHP. However, since CAFAS could not document that this $4,674 in costs was actually incurred in its BHP, it should not have charged these costs to the cost reimbursement contract that funded this program.

Also, during fiscal year 1998, CAFAS billed and received payments totaling $25,252 for salary expenses it said it incurred for a Program Director in its BHP. However, we reviewed CAFAS's payroll records and found that the agency only incurred $19,006 in payroll costs associated with this staff position. As a result, CAFAS overbilled DSS $6,246 for this position during fiscal year 1998.

We also found that during this same fiscal year that CAFAS allocated $3,820 of the salary of its former Chief Operating Officer (COO) to its BHP. CAFAS officials informed us that this individual's unique background and experience in adoption issues qualified him to provide help on these and other issues in the BHP. However, the former COO stated that his involvement with the BHP was minimal and indirect in that he supervised the Director of Outpatient Services, who supervised the Program Director of the BHP. He also stated, that contrary to what current CAFAS officials have asserted, he had no involvement in adoption issues at the BHP. He further stated that he was not aware of how much of his salary was being allocated to the BHP but that he believed the former CEO and the CFO made the allocation. Therefore, we question the reasonableness of this allocation.

Moreover, the former Program Director of the BHP stated that she had little if any contact with the former COO and no contact with him regarding the operation of the BHP. The former Program Director stated that BHP direct care employees were routinely assigned to other CAFAS programs “as needed” by the Director of Outpatient Services and corroborated the testimony of the LSW previously discussed, stating she was actually working full-time at the ACP providing fee-for-service counseling until the BHP Dedham site opened in February 1998. Based on our review of the documentation maintained by CAFAS relative to these expenses and our interviews with their former CAFAS employees, we question the $10,066 ($6,246 + $3,820) in salary expenses and the $2,164 in fringe benefit costs ($10,066 x 21.5% fringe benefit rate) CAFAS charged against its state contracts for the former BHP Program Director and the former COO.

Regarding this matter, CAFAS officials stated that all program staff costs the agency billed against the contract that funded its BHP were appropriate. However, the testimony provided to the audit team and CAFAS’s own records do not support this assertion.

Recommendation: In order to address our concerns relative to this matter, DSS should recover the $83,699 in highly questionable personnel and consultant costs CAFAS charged against the contract that funded its BHP. In the future, CAFAS should take measures to ensure that it bills only for those costs that it can document were actually incurred in the programs to which they are billed. Also, given the highly questionable nature of these expenses, DSS, in conjunction with other appropriate oversight and law enforcement agencies, should conduct its own review of the expenses billed by CAFAS against the contract that funded its BHP during and subsequent to the period covered by our audit and take whatever measures they deem appropriate under the circumstances.

Auditee’s Response:

> CAFAS recognizes the importance of accurate and timely recordkeeping on individual contracts and projects. In response to this issue, we have restructured a position in our Financial Department to provide more direct communication with the CFO about state contracts and to provide more direct supervision of the projects.
>
> We believe that in further discussion, the agency will be able to clarify its accounting treatment and the specific details of the staff costs allocated to the Bridge Home project’s start up.

Auditor's Reply: We believe that the actions taken by CAFAS's current management staff relative to this matter are appropriate and should serve to ensure that, in the future, the agency bills only for those costs it actually incurs and can document. However, we again recommend that DSS recover the $83,699 in highly questionable personnel and consultant costs that CAFAS charged against the contract that funded its BHP program during the period covered by our audit. Also, DSS, in conjunction with other appropriate agencies, should conduct its own review of the expenses CAFAS billed against its BHP contract during and subsequent to the period covered by our audit and take whatever measures it deems appropriate under the circumstances.

2. Inadequate Controls over the Use of CAFAS Corporate Credit Cards Resulted in $116,055 in Undocumented, Inadequately Documented, and Potentially Non-Program-Related Expenses against State Contracts

During the period July 1, 1996 through December 31, 1998, CAFAS allowed 18 members of its administrative staff to use corporate credit cards to pay for over 2,000 expenses totaling $258,711. We examined $243,298, or approximately 94%, of these expenditures and found that CAFAS had not established and implemented adequate controls over the use of its credit cards. As a result, at least $127,852 of the expenditures we reviewed (of which $116,055 was charged to CAFAS's state contracts) were questionable in that they were either undocumented, inadequately documented, or did not appear to be related to the social service program purposes of CAFAS's state-funded programs.

Examples of potentially non-program-related expenses include $12,702 in restaurant charges (including alcohol), $1,064 for tuxedo and limousine rentals, $6,648 for gifts and flowers, $1,200 for parking fees, and $22,311 for airline tickets for which the agency had inadequate documentation to substantiate that these expenditures were related to the social service purposes of CAFAS's state funded programs. We also found that CAFAS expended $3,032 for baby showers, going-away events, and staff birthday parties. On one occasion, CAFAS had a going-away party for the Director of its Concord Family Services Program and charged $1,418 of the expenses associated with this party, including a $275 gift for this individual, to its state contracts. According to state regulations, expenses that are inadequately documented or not directly related to the program activities of service providers are nonreimbursable under state contracts.

OSD has promulgated regulations that define certain costs that are unallowable and nonreimbursable under state contracts. Specifically, 808 CMR 1.05(12), and 808 CMR 1.05(26), promulgated by OSD, defines the following as being nonreimbursable program costs:

> Section 1.05(12) Non-Program Expenses: Expenses of the contractor which are not directly related to the social service program purposes of the contractor.
>
> Section 1.05(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.

During the period July 1, 1996 through December 31, 1998, 18 members of CAFAS's staff charged $258,711 in expenses on agency corporate credit cards, as follows:

Job Title	**Credit Card Type**	**Amount Charged**
Former Chief Executive Officer	M/C	$13,021
	EX	56,207
Medical Record Supervisor	EX	5,695
Director of Human Resources	M/C	16,875
Director of Outpatient Services	M/C	22,939
Program Director (Lowell)	M/C	4,042
Former Director of Concord Family Services	M/C	2,613
Director of Human Education Resource	M/C	18,163
Former Director of Development	M/C	28,375
Former Bridge Homes Director	M/C	23,403
Former Acute Services Director	M/C	699
Former Day School Director	M/C	1,194
Billing Supervisor	M/C	598

Social Worker	M/C	265
Former Group Home Director	M/C	441
Director of Concord Assabet School	M/C	734
Former Development Officer	M/C	103
Former Director of Residential Schools	EX	8,085
Director of Carlisle Institute	EX	55,259
Total Credit Card Purchases		$258,711

M/C = Master Card
EX = American Express

Our assessment of the system of internal controls that CAFAS had established and implemented over these credit card expenditures indicated that CAFAS does require staff to complete an expense documentation form that indicates the date, place, amount, and nature of each expense. This form requires that supporting documentation for each expense must be attached to the form. Despite these requirements, we noted that CAFAS's management did not require individuals who had corporate credit cards to submit original receipts to substantiate the reasonableness and appropriateness of these expenditures. Additionally, no member of CAFAS's staff performed an independent review of these expenses to determine their propriety and allocability to state contracts.

We also found that agency staff were using credit cards to make significant dollar purchases, including $3,826 for video editing systems and $5,458 for an out-of-state conference. The practice of using credit cards for major program expenditures violates the principles of good internal controls for the following reasons:

- The practice does not provide for adequate prior authorization for significant expenditures.
- The practice does not adequately validate or document the receipt of services and supplies as would invoices and packing slips for significant purchases.

- The practice exposes the organization to the misuse or loss of funds equal to the spending level authorization of the credit cards, which equaled approximately $57,000.

Based on these internal control deficiencies, we reviewed the documentation maintained by CAFAS relative to 2,140 expenditures totaling $243,298 made by the agency during the period July 1, 1996 through December 31, 1998. Based on our review, we identified numerous problems with these expenses, including 52 transactions totaling $7,080 in which the person who used the credit card was not the authorized user and 293 credit card expenditures totaling $51,103 that were not properly approved by a supervisor. We also found that CAFAS billed and received payments from the Commonwealth for $116,055 in credit card expenses that were not adequately documented or appeared to be unrelated to the social service purposes of CAFAS's state-funded programs, as indicated in the following table:

CAFAS
Summary of Inadequately Documented
and Unallowable Expenses

	Fiscal Years			
	1997	1998	1999 (through 12/31/98)	Totals
Inadequately Documented	$19,874	$21,380	$16,165	$ 57,419
Unallowable	39,221	22,448	8,764	70,433
Totals	59,095	43,828	24,929	127,852
Allocated to Non-State Programs	(5,791)	(3,638)	(2,368)	(11,797)
Total Allocated to State Programs	$53,304	$40,190	$22,561	$116,055

Included in this $116,055 were 596 expenditures totaling $70,433 that, based on the documentation maintained by CAFAS, did not appear to be related to the social service purposes of CAFAS' state-funded programs and therefore should not have been charged against the agency's state contracts. Examples of those non-program-related expenses include:

- Various expenses totaling $22,311 for airline tickets for out-of-state trips that had no documented benefit to CAFAS's state-funded programs.

- Various expenses totaling $15,609 for food for staff meetings, various staff parties, and other functions, including $1,418 for a going-away party for a staff member and a $275 gift provided to this individual on August 13, 1998.

- Various parking fees totaling $1,200.

- Limousine and tuxedo rentals totaling $1,064.

- On September 9, 1996, the former Chief Executive Officer purchased dinner for $217 at the Pasta Moon Restaurant in Half Moon Bay, California and charged it against state contracts. There was no documentation to indicate the business nature of this expense.

- On July 5, 1997, the former Chief Executive Officer purchased a Health Rider personal fitness machine for $1,155 and charged it against state contracts. The Health Rider was charged to the administrative cost pool and could not be found at the agency's facilities. The documentation maintained by CAFAS to this expenditure does not indicate how this related to CAFAS's state-funded programs.

- On February 12, 1998, the former Chief Executive Officer spent $168 at the Harness Shop in Concord and charged it against state contracts. The documentation maintained by CAFAS to this expenditure does not indicate how this related to CAFAS's state-funded programs.

- On July 21, 1998, the former Chief Executive Officer purchased a goodbye gift at Tweeters for a former employee totaling $720 and charged it against state contracts. The documentation maintained by CAFAS to this expenditure does not indicate how this benefited CAFAS's state-funded programs.

- On September 18 1998, CAFAS's former Chief Executive Officer paid for a hotel stay totaling $731 at the Drake Hotel in Chicago and charged it against state contracts. The documentation maintained by CAFAS to this expenditure does not indicate how this benefited CAFAS's state-funded programs.

- On October 25, 1996, CAFAS's former Chief Executive Officer paid for a hotel stay totaling $1,046 at the Renaissance St. Petersburg Hotel in St. Petersburg, Florida and charged it against state contracts. The agency did not provide us with any documentation to substantiate how this benefited CAFAS's state-funded programs.

Regarding these inadequately documented expenses, CAFAS' former Chief Executive Officer stated that, because it is sometimes difficult to maintain receipts under the advice of the agency's private accounting firm, CAFAS developed the expense documentation form to substitute for receipts. CAFAS officials stated that instead of "collecting all the little pieces of paper" (sales slips), their auditor recommended the use of an expense documentation sheet. The individual credit card holder would prepare the documentation sheet monthly to classify each procurement by date, vendor, program, business purpose, expense general ledger account, and amount. However, as noted above, CAFAS's policy requires supporting documentation to be attached to this expense documentation form. Without such original supporting documentation, it cannot be demonstrated that these expenses represented reasonable, allowable, and allocable charges to CAFAS's state contracts.

Regarding the expenses that appeared not to be related to CAFAS's state-funded programs, CAFAS's former Chief Executive Officer stated that expenses for such items as flowers and occasional small disbursements for gifts are in his opinion legitimate operating costs. He added that he believed that it is common business practice for any employer to pay for flowers and gifts, within reason, at appropriate times. The former Chief Executive Officer also stated that occasional out-of-state travel of agency employees benefits existing programs and the overall agency in two ways. First, it generates or helps sustain operating revenues as in the case of travel related to the SPIN Program or the National Center for Young Children at Risk. Secondly, in the opinion of the former Chief Executive Officer, attendance at out-of-state meetings or conferences is similar to training, which is an allowable cost under state contracts, since these meetings and conferences provide information on current trends and issues relevant to the field. The former Chief Executive Officer concluded by stating that it is his position that all out-of-state travel is business-related.

Although CAFAS's former Chief Executive Officer contends that these expenses were in fact related to the social service purposes of CAFAS's state-funded programs, CAFAS did not provide us with adequate documentation to substantiate this assertion. Also, although CAFAS has implemented the use of the expense documentation form, its employees do not take the measures necessary to ensure that supporting documentation is submitted with the form to adequately support these expenditures.

Recommendation: CAFAS should establish and implement effective internal controls over the use of credit cards by staff members. At a minimum, these controls should require staff members who use corporate credit cards for business expenses, where possible, to obtain prior authorization for these expenditures and to maintain and submit to CAFAS adequate documentation relative to the business purposes of each expense. The documentation relative to each expense should be reviewed by independent members of CAFAS's administrative staff (typically its Chief Financial Officer) for approval prior to CAFAS's paying these expenses.

Also, DSS should recover the $116,055 in inadequately documented and non-program-related expenditures that CAFAS charged against its state contracts in fiscal years 1997 and 1998. Finally, DSS should perform a review of the credit card expenditures made by CAFAS for the period prior and subsequent to our audit period. Based on this review, DSS should take whatever measures it deems appropriate to resolve this issue.

Auditee's Response:

The agency has taken steps to curtail credit card use. As a result, credit card use in the agency has dropped significantly. For example, comparing the agency credit card bill from January 1999 with January 2000, there was a 60% drop in the total bill. The agency is exploring further steps toward alternative methods of procuring goods and services needed quickly for programs and further reducing the number of authorized credit card holders.

For the past three years, the agency's procedure for documenting credit card expenses has required that the procurer complete an agency expense form documenting the program for which the purchase was made, the program purpose of the purchase, supervisory approval, and the original credit card receipt detailing the full purchase.

Agency policy regarding the detailed documentation required has been reviewed with remaining staff who have credit cards and staff has been informed that incomplete documentation may require that the employee be personally responsible for the expense. A copy of the policy memo that has been sent to staff authorized to use credit cards [states as follows]:

"All credit card purchases must have detailed receipts attached to the expense report form. All expenses that are not accompanied by a detailed receipt must be reimbursed by the employee or reclassified as a "non-reimbursable" expense in our Uniform Financial Report."

As shown in your report, CAFAS received significant private support in addition to funding from state agencies. Private funding has been used to purchase such items as gifts and farewell parties for staff members which are mentioned in the report. The agency, however is reviewing its practices in regard to gifts and tokens of appreciation for its staff.

CAFAS looks forward to the opportunity to provide the appropriate state agency further classification of the program purpose associated with individual credit card purchases. If after such review, it is still deemed that some expenses are unallowable, CAFAS will make arrangements to satisfy the appropriate state agency.

Auditor's Reply: The actions taken by CAFAS's current management staff relative to this matter should help reduce any further occurrences of undocumented or non-program-related credit card expenses being charged to state contracts.

We are aware that CAFAS does receive some private funding. However, during our audit, agency officials were unable to demonstrate that private funds were used to pay for the $116,055 in inadequately documented and non program related expenses or that these expenses were directly related to the social purposes of CAFAS's state funded program. Therefore, we again recommend that the Commonwealth recover from CAFAS the $116,055 in undocumented and/or non-program-related expenses we identified and that DSS perform its own review of the credit card expenditures made by CAFAS for the period prior and subsequent to our audit period. Based on this review, DSS should take whatever measures it deems appropriate to resolve this issue.

3. Improperly Expensed and Undocumented Capital Item Purchases and Program Supply Costs Totaling $135,942

During our audit, we found numerous problems with expenses for capital items and supplies that CAFAS charged against the contract that funded its BHP. Specifically, CAFAS expensed $62,697 for capital items for its BHP rather than depreciating the costs of these items as required by OSD regulations. Further, CAFAS billed and was reimbursed in fiscal year 1997 for $14,125 in building improvement costs that were actually incurred in fiscal year 1998. Also, CAFAS expensed $13,334 in vehicle lease costs for fiscal year 1997 against this contract even though it did not even enter an agreement to lease this vehicle until fiscal year 1998. Finally, CAFAS was unable to document that $45,786 in equipment and supplies purchased for its BHP were actually used in this program. Moreover, our review of CAFAS's records revealed that CAFAS had billed DSS for duplicate purchases for $8,419 and unsupported costs of $2,021 of this $45,786 in purchases. Although CAFAS corrected the duplication errors in its own financial records, it failed to adjust its billings to and credit the contract that funds its BHP to account for the $8,419 in duplicate billings.

As noted in the Background section of this report, in April 1997 DSS awarded CAFAS a cost reimbursement contract to fund its BHP. Included in this contract was $53,289 to reimburse CAFAS for $14,125 in building improvements and $39,164 in furnishings, equipment, and appliances to be purchased during fiscal year 1997. OSD defines a capital item in 808 CMR 1.02 as follows:

a. An asset or group of assets of nonexpendable personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the capitalization level established and certified by the Contractor in accordance with generally accepted accounting principles for financial statement purposes; or

b. A repair, betterment or improvement or a group of repairs, betterments or improvements which costs more than $500 in aggregate and which adds to the permanent value of an asset or prolongs its useful life for more than one year.

OSD regulations require that capital items be depreciated over their useful life. To ensure that the cost of capital items are properly reported, OSD in 808 CMR 1.05(4) identifies the following as nonreimbursable costs under state contracts; "All costs attributable to the current expensing of a capital item." Also, as previously noted, 808 CMR 1.05(26) identifies all inadequately documented expenses as being nonreimbursable under state contracts.

During our audit, we reviewed the documentation being maintained at CAFAS relative to the costs it billed DSS for expenses related to the purchase of capital items and supplies during fiscal years 1997 and 1998 under the DSS contract that funded its BHP, and noted the following deficiencies:

- During fiscal year 1997, CAFAS billed and received payments from DSS totaling $14,125 for building improvements it made to its BHP sites in Waltham and Dedham. These $14,125 costs were accrued in the agency's records as capital item purchases during fiscal year 1997, but were not actually incurred by CAFAS until fiscal year 1998. In fact, the contract to perform this work was not even signed until September 1997 (fiscal year 1998). Because the BHP program is funded by a cost reimbursement contract, charging this $14,125 as a fiscal year 1997 expenditure when it was not incurred until fiscal year 1998 was incorrect and represents an unallowable cost against this contract.

- CAFAS billed and was reimbursed by DSS a total of $35,346 for program supplies expenses in June 1997. However, our review of the supporting documentation maintained by CAFAS relative to this billing indicated that these "supplies" were, in many cases, capital items purchased in fiscal year 1997 that were either delivered in early fiscal year 1998 to CAFAS administrative offices in Acton or were held on "layaway" for future delivery. As previously noted, BHP site locations did not open until November 1997 in Waltham and February 1998 in Dedham.

CAFAS's CFO told the audit team that he thought that the program supplies, some of which were computer equipment and furniture, purchased with these funds were stored in a trailer behind CAFAS's administrative offices in Acton and were delivered to the program sites prior to the opening of programs. However, CAFAS was unable to provide us documentation to substantiate this claim. Since CAFAS expensed all of these program supplies, including capital items, and could not substantiate that these items were actually used in the BHP program to which they were billed, this $35,346 represents nonreimbursable costs to CAFAS's BHP contract.

- CAFAS billed and was reimbursed by DSS a total of $13,334 for leased vehicle expenses that CAFAS claimed to have incurred during fiscal year 1997. However, our review of CAFAS's financial records indicated that the agency accrued this liability in fiscal year 1997 but did not pay these expenses until fiscal year 1998 (August 15, 1997). Because CAFAS billed for costs not actually incurred, these leased vehicle costs represent nonreimbursable costs under CAFAS state contracts. Moreover, it should be noted that, although CAFAS officials stated that they leased this vehicle during fiscal year 1997 to transport clients in its BHP, there were no clients in this program to transport until November 1997 (fiscal year 1998).

- During fiscal year 1997, CAFAS billed and was reimbursed by DSS for $39,164 in furniture and equipment items for its BHP. However, CAFAS could only provide us with documentation to substantiate that $28,724 of these costs were actually incurred. Since the agency was unable to document that $10,440 of these costs were incurred, these costs are nonreimbursable in accordance with state regulations. Specifically, during fiscal year 1997, CAFAS made three accounting errors totaling $8,419 in its accounting system that included recording duplicate purchases for three capital items. Subsequent to making these errors, CAFAS billed and received payments from DSS for the duplicate purchase of these capital items. Although CAFAS eventually corrected these accounting errors in its own records, it never notified DSS of these double billings or reimbursed DSS for the $8,419 in duplicate charges. Therefore, CAFAS owes $10,440 for the double-billing of $8,419 and the unsupported costs of $2,021 to DSS.

- During fiscal year 1998, CAFAS billed and was reimbursed by DSS a total of $39,234 for building improvement capital costs, which it billed under the Other Occupancy expense budget line item of the contract that funded its BHP. These costs were for construction costs associated with building improvements at the agency's BHP sites. Because CAFAS expensed the entire cost of these capital items during fiscal year 1998, as opposed to depreciating them in accordance with OSD regulations, they represent nonreimbursable costs under CAFAS's state contracts.

- During fiscal year 1998, CAFAS billed and was reimbursed by DSS a total of $23,463 for the cost of capital purchases billed under various expense line items. Real estate legal closing cost fees were classified as Other Occupancy expenses, architectural fees were classified as Professional Fees expense, and computer equipment was classified as Minor Equipment expense. Because CAFAS expensed these capital items rather than depreciating them as required by OSD regulations, they represent nonreimbursable costs under CAFAS's state contracts.

It should be noted that our review of the capital items expensed by CAFAS during fiscal year 1998 indicated that $26,815 worth of construction costs discussed above were originally charged to expense accounts, then reclassified by CAFAS to a capital account during this fiscal year. However, at the end of the fiscal year, CAFAS improperly reclassified $23,463 of these costs back to expense accounts.

CAFAS officials stated that the construction modifications were not done to improve the properties but to accommodate DSS regulations and requirements relative to the operation of the BHP and that the program supplies and lease vehicle charges were incurred because CAFAS wanted to get a “head start” on the program operation of the BHP program. CAFAS’s former Chief Executive Officer and CFO added that, after consulting with the agency’s accounting firm, due to the “emergency need to get these programs operational” CAFAS believed it was appropriate to expense the aforementioned capital items.

Recommendation: CAFAS should take measures to ensure that all future capital expenditures are properly recorded, reported, and documented. In addition, DSS should recover the $135,942 in improperly expensed and undocumented capital items and program supply costs discussed above.

Auditee’s Response:

> Prior to March 1, 2000 when the agency ended its Bridge Home contract with DSS, a full and complete inventory of all equipment was made to facilitate transfer of the program to another agency. . . .These items, along with items purchased by CAFAS with private funds were transferred to the new vendor.
>
> Program start up, particularly of new models such as the Bridge Home, are always times of rapid action in order to get services to children in need as quickly as possible. Much of the activity which took place during this time was targeted toward equipping the program sites so that they could receive the final approval and licensing from the appropriate state agencies. Gaining such approval, by necessity must be accomplished before the program is permitted to take clients into the program.
>
> The agency believes it was in good faith by making arrangements to secure the necessary vehicle leases, by making building improvements, by training staff, and by making other preparations and related purchases. This activity was undertaken so that the Commonwealth would receive the best value possible and to assure that programs were fully functional on the day they were opened to clients. We look forward to reviewing with the appropriate state agency, this time period and the details of our activities toward receiving final approval and timely opening of the program to clients awaiting the services.

Auditor’s Reply: As stated in our report, we identified $135,942 in improperly expensed and undocumented capital item purchases and program supply costs. While we acknowledge that there were many necessary start-up costs associated with the BHP, CAFAS officials were responsible for ensuring that all of these expenses were properly charged, recorded, reported, and documented.

4. <u>Nonreimbursable Salaries Totaling as Much as $37,762 for CAFAS's Former Chief Executive Officer Allocated to State Contracts</u>

During fiscal years 1997 and 1998, CAFAS allocated $3,649 in salary expenses to state contracts for its former Chief Executive Officer in excess of the maximum salary rate allowed by state regulations. Additionally, we found that the amount of time CAFAS's former Chief Executive Officer spent working on state contracts was on average approximately 66.9%, as opposed to the average 84.4% the agency reported in its Uniform Financial Statements and Independent Auditor's Reports (UFR) during these fiscal years. As a result, CAFAS may have overbilled its state contracts by as much as $37,762 for the salary expenses of its former Chief Executive Officer during these two fiscal years.

OSD has promulgated regulations that specifically define certain expenses as being unallowable and nonreimbursable under state contracts. In this regard, 808 CMR 1.05 (24) identifies certain salary expenses as nonreimbursable costs under state contracts, as follows:

> <u>Salaries of Officers and Managers</u>: Salaries of officers and managers to the extent they exceed the rate paid to state managers in job group M-XII, step seven in the schedule contained in [Massachusetts General Laws] MGL. C.30; §46C. (For fiscal year 1997 and 1998 the rates are $95,785 and $100,142 respectively.)

Further, OSD's "Policy Guidance/Regulatory Interpretation of 808 CMR 1.05(24), Salaries of Officers and Managers," effective July 1, 1996, states that if officers or managers of a contracted service provider such as CAFAS work less than 100% of their time on state contracts, than the maximum amount of their salary that can be charged to state contracts must be prorated by the percentage of time they work under state contracts. Specifically this guidance states, in part:

> If a provider has implemented an employee performance evaluation system, additional reimbursement may be allowable. Providers must maintain documentation justifying the selection of a reimbursement rate in excess of $81,423 [Job group M-XII]. Where officers and managers devote less than full time to state programs, the level of reimbursement should be prorated accordingly. For example, if the maximum salary level in the state's management schedule is $80,000 and a provider's chief executive officer earns $100,000 and spends 75% of

her time on a social service program under 808 CMR 1.00, reimbursement would be limited to $60,000 ($80,000 X 75% = $60,000) not $75,000 ($100,000 x 75%).

Contrary to these requirements, our review of CAFAS's executive salaries as reported in the fiscal years 1997 and 1998 Uniform Financial Statements and Independent Auditor's Report (UFRs) disclosed that CAFAS's allocation to state contracts for the salaries of its former Chief Executive Officer was excessive by $3,649, as detailed below:

Fiscal Year	M-XII Step Seven	Allowable Amount*	Amount Allocated to State Contracts	Amount Overbilled
1997	$95,785	$76,628	$76,387	($241)
1998	$100,142	$88,926	$92,816	$3,890
Total				$3,649

* According the UFR's CAFAS filed during these fiscal years, CAFAS's former Chief Executive Officer spent 80% and 88.8% of his time, respectively, working on state-funded programs. This allowable amount reduces the M-XII Step Seven amount by these percentages.

As noted in the table above, CAFAS overcharged its state contracts at least $3,649 during fiscal years 1997 and 1998. This figure is based on the assumption that the amount of time CAFAS's former Chief Executive Officer spent performing work relative to state programs is in fact the percentage of time CAFAS disclosed in the agency's UFRs. However, our review of the attendance records submitted by CAFAS's former Chief Executive Officer during calendar years 1997 and 1998 revealed that, in addition to the 15.6% of the former Chief Executive Officer salary spent on fundraising as reported in the UFR by CAFAS for fiscal years 1997 and 1998, the former Chief Executive Officer traveled out of state for 50 and 41 days, respectively. Since the documentation maintained by CAFAS was inadequate to determine whether this travel was related to the social service program purpose of CAFAS's state-funded programs (see Audit Result No. 2), we believe that a more reasonable percentage of time CAFAS' former Chief Executive Officer spent providing services under state contracts in terms of Full Time Equivalents (FTEs) is 60.8% and 73.1%, respectively, during fiscal year 1997 and 1998, as detailed below:

Analysis of the Former Chief Executive Officer's FTE Allocation
Fiscal Years 1997 and 1998

Fiscal Year	Total FTE Days Per Year	Days Adjusted for Fundraising	Days Adjusted for Out-of-State Travel	Adjusted Total FTE Days Available
1997	260	20 % (52)	19% (50)	60.8% 158
1998	260	11.2% (29)	16% (41)	73.1% 190

Analysis of the Former Chief Executive Officer's Salary Expense
Allocated to State Programs
Fiscal Years 1997 and 1998

Fiscal Year	M-XII Step Seven	Allowable Amount of Salary	Amount Charged to State Contracts	Potential Overbillings
1997	$95,785	$ 58,237	$ 76,387	$ 8,150
1998	$100,142	73,204	92,816	19,612
Total		$131,441	$169,203	$37,762

CAFAS officials did not comment on this issue.

Recommendation: CAFAS's principal purchasing agency (DSS) should recover the $3,649 in excessive salaries that CAFAS charged to state contracts during fiscal years 1997 and 1998. Further, DSS should conduct its own review of the attendance and related records of the former CAFAS Chief Executive Officer and determine whether any additional amounts based on our calculations in the table above should be reimbursed. In the future, CAFAS should take measures to ensure that the billings to the Commonwealth for salaries of its officers and managers are within the guidelines prescribed by state regulations and OSD guidelines.

Auditee's Response:

> The agency believes that it was in compliance with prevailing regulations in billing time of the former Chief Executive Officer's salary to the Bridge Home program. The agency will work with the appropriate state agency to clarify our use of prevailing regulations in reporting the reimbursable portion of the former Chief Executive Officer's salary in its annual UFR filings. Given that the agency will be focusing on its core business in its primary geography, the need for travel going forward should be significantly reduced.

Auditor's Reply: As stated in our report, based on our analysis, CAFAS overbilled the Commonwealth $3,649 for the salary of its Chief Executive Officer during the period of our review. Therefore, we again recommend that these funds be recovered. In the future, CAFAS should ensure that its billings for the salary expenses of its officers and managers are consistent with OSD guidelines and state regulations. Based on its response, CAFAS's current management staff is taking measures to address our concerns relative to this matter.

5. Questionable, Ineffective, and Inefficient Management Practices:

Sound business practices advocate that an organization employ management practices that ensure that agency goals and objectives are met in the most economical and efficient manner; assets are properly safeguarded; and transactions are properly authorized, reported, and recorded. However, CAFAS's administrative staff often did not exercise sound business judgment in their management of CAFAS. For example, CAFAS's administrative staff had not established an adequate system of internal controls over all aspects of the agency's operations; did not effectively manage staff turnover, which may have contributed to three of its programs being placed under sanctions by OCCS; assumed the operation of another organization, which according to the agency's Board of Directors caused CAFAS to incur a financial crisis; and incurred significant expenses for out-of-state travel during a period when the agency was experiencing operating losses and programmatic sanctions.

During fiscal years 1997 and 1998, CAFAS experienced significant operating losses, as follows:

	1997	1998
Program Contracts and Service Fees Revenue	$ 6,406,550	$ 10,297,339
Program Services Expense	(6,902,170)	(9,666,500)
Management and General Expense	(1,241,919)	(1,426,190)
Total Operating Expenses	($8,144,089)	($11,092,690)
Losses from Operations	($1,737,539)	($795,351)

Also, as noted in the Subsequent Events section of this report, during fiscal year 1999 CAFAS incurred a negative change in its net assets of $1,478,814, raising the question as to whether it can continue as a going concern.

However, despite its poor fiscal condition, CAFAS's management entered into transactions and conducted business activities that were not prudent in that they were not in the best interest of CAFAS. As noted in the Audit Results section of this report, these activities included expending thousands of dollars in questionable and non-program-related expenditures and failing to establish an adequate system of internal controls over many aspects of its operations. In addition to these problems, we also noted the following questionable actions taken by CAFAS's management:

- CAFAS officials were not effectively managing staff turnover. Specifically, at least seven out of 16 (44%) of CAFAS's key management personnel left during fiscal years 1998 and 1999, including the Chief Operations Officer, Director of Group Homes, Director of Residential Schools, Director of Bridge Homes, Accounting Manager, Director of Concord Family Services, and Director of Development. Some of these positions also had a very quick turnover rate. For example, the COO position was vacant from March 1997 to February 1998 until CAFAS hired a new COO, who remained only 10 months in this position. Excessive staff turnover can result in or exacerbate fiscal and programmatic problems. In fact, as noted in the Background section of this report, three of CAFAS's residential school programs were placed under OCCS sanctions. In addition, the Town of Concord cited the Concord Residential School for three health code violations on November 3, 1998.

- As noted in the Background section of this report, CAFAS acquired Brighton-Allston Mental Health Association Inc., (BAMHA) on October 24, 1996. Beginning in fiscal year 1998, BAMHA was consolidated financially with CAFAS. BAMHA had a negative asset balance of ($852,562) as of June 30, 1997. BAMHA continued its poor financial performance into fiscal year 1998, and this contributed to CAFAS making a decision in the Board of Directors meeting of February 17, 1998 to cut salaries, suspend contributions to the employee pension plan, and forego tuition reimbursement for CAFAS staff. We believe CAFAS should have completed a comprehensive analysis of the financial viability of any acquisition and its impact to the service level of the existing clients and programs. CAFAS confirmed this in the minutes of the January 1, 1997 board meeting, which stated "We need to learn from the BAMHA acquisition and require more specific financial and program information during the due diligence process. We made the deal for strategic reasons, and they were good reasons, giving CAFAS a much needed presence in Boston."

- Despite the agency's deteriorating financial situation, CAFAS's former Chief Executive Officer continued out-of-state travel. From July 1, 1997 to December 31, 1998, the former Chief Executive Officer went on 22 out-of-state/country trips that cost CAFAS $35,032. During this period, CAFAS was experiencing significant fiscal and programmatic issues. In fact, as a result of its fiscal problems CAFAS imposed salary cuts, suspended contributions to its employees'

> pension plans, and stopped tuition reimbursements for its staff. While we do not argue that there may be some benefit to the agency from these trips, it may have been more fiscally prudent to curtail discretionary expenditures such as these until such time as the agency's fiscal and programmatic problems were substantially resolved.

Regarding these matters, CAFAS's former Chief Executive Officer stated that the agency's state contracts did not compensate the agency enough to pay adequate wages for staff, which contributed to his agency's high turnover rate. He added that the inability to attract adequate replacement staff caused CAFAS to use relief workers as opposed to regular full-time staff and contributed to OCC's sanctions of CAFAS's programs. The former Chief Executive Officer added that the acquisition of BAMHA was done to gain access to the Boston area, and that CAFAS officials were aware of BAMHA's poor financial health but thought it was due to poor management and believed that when management changes were implemented by CAFAS, the financial condition of this operation could be improved. Lastly, CAFAS officials indicated that, in their opinion, the travel by the former Chief Executive Officer benefited the agency through exposure to new management ideas and through contacts that could open other business opportunities for the agency.

Recommendation: In order to ensure that CAFAS is managed in the most effective and efficient manner, the agency's Board of Directors should require CAFAS's President/CEO to:

- Take measures to minimize staff turnover to the extent possible, especially in key positions. Such measures might include reassessing staff compensation and fringe benefit levels, establishing more staff advancement opportunities, and implementing some job enrichment measures.

- Ensure that the financial viability of any future business acquisition or other material business activities are fully researched and presented to the board for consideration prior to taking any actions.

- Reduce expenditures in all nonessential areas (e.g., business travel) prior to reducing staff compensation during periods when the agency may be experiencing financial difficulties.

Auditee's Response:

The Board of Directors of the agency believes that it acted in the best interests of the agency, and used all information available to it with regard to decision making and board oversight of strategic and financial decisions. The Board has been fully informed of the multiple factors leading to the organization's current financial challenges and actively pursued a series of

> strategic alternative to address these issues. New management leadership has, nonetheless, brought new perspective and resources to the agency.
>
> The Board and staff have decided on an alternate course, and the organization has begun implementing its plan for a return to core services as evidenced by the specific steps it has taken which were cited earlier in this response. The Board is confident that this emphasis, combined with improved internal controls, will address the strategic challenges faced by management which were cited in the report.
>
> The Board is working on its annual nominating and recruitment process toward appointing Board leadership. As happens every year, this process will bring new members to the Board members to fill vacancies. This year's process will be completed at the May 2000 meeting of the Board.

<u>Auditor's Reply</u>: Based on its response, CAFAS has taken positive steps to implement more effective management and sound oversight within the agency. However, in order to ensure that the agency is managed in the most effective and efficient manner, CAFAS should implement the recommendations stated in our report.

6. <u>Inadequate Inventory Controls over $1,709,232 in Equipment and Furnishings</u>

CAFAS had not established an inventory system that is consistent with the requirements of state regulations. As a result, the Commonwealth cannot be assured that CAFAS's inventory of furnishing and equipment items, which as of June 30, 1999 totaled $1,709,232, was being properly safeguarded against loss, theft, or misuse.

OSD has established regulations with which all service providers (e.g., CAFAS) who contract with state agencies must comply. Regarding the inventorying of equipment and furnishing items purchased with state funds, 808 CMR 1.04(5) states:

> <u>Inventory of Equipment and Furnishings.</u> Any Contractor in possession of furnishings and equipment to which a Department has title shall label, maintain and keep on file a written inventory of the property. Said inventory shall contain the sources of funding, description and location of each item, as well as such other information as may be required by the Department. Upon termination of the Contractor's contracts with the Department, the property shall be returned to the department or transferred to another Contractor, as directed by the Department.

Furthermore, 808 CMR 1.04(11)(c) establishes penalties for service providers who fail to comply with 808 CMR 1.04(5), as follows:

Failure to Comply with 808 CMR 1.04(4), 1.04(5), or 1.05(25). If, after a hearing, DPS finds a violation of 808 CMR 1.04(4), 1.04(5), or 1.05(25), DPS may order the contract(s) directly affected by such violation be terminated or may assess a civil penalty of not more than $2,000 or 10% of the Contract's annual Maximum Obligation under such contract(s), which ever is greater. If DPS determines after a hearing that a Contractor has committed repeated willful violations of 808 CMR 1.04(4), 1.04(5), or 1.05(25), DPS may debar the Contractor for a period not to exceed five years.

During our audit, we found the following deficiencies relative to CAFAS's inventory system:

- CAFAS was not maintaining detailed records of its inventory that clearly list each item description, location, cost, and source of funds used to purchase it (i.e., state, private, or donated funds). Also, because some of CAFAS' items did not have identifying tags, and inventory was traced to wrong programs, an inventory test could not be performed.

- CAFAS did not conduct an annual inventory of its furnishings and equipment.

- CAFAS did not maintain a list of obsolete or retained items.

- The inventory list contains furnishings and equipment acquired as far back as December 1978. There are computer and telephone equipment items valued at $57,545 that have been on this list for over 10 years. CAFAS does not indicate whether these items have any useful value.

Because CAFAS was not maintaining an inventory of its equipment and furnishings as prescribed by OSD regulations, CAFAS and the Commonwealth cannot be assured that the $1,709,232 in equipment and furnishings in its possession as of June 30, 1999 were properly safeguarded against loss, theft, or misuse.

Regarding this matter, CAFAS officials stated that they would be implementing proper inventory procedures in the near future.

Recommendation: CAFAS should immediately develop and implement procedures to collect and maintain inventory records in accordance with OSD regulations.

Auditee's Response:

CAFAS believes that equipment and other items purchased for programs were used in the programs for the benefit of the children and families it served. It does recognize the need to improve its formal inventory system. CAFAS has begun an agency-wide inventory process, beginning with its installation of new computer equipment which occurred from August 1999 to the end of the calendar year. At the program level, program managers are beginning to work toward a comprehensive inventory system which will, when complete, be part of an agency-wide approach to tracking inventory.

Auditor's Reply: As stated in our report, during the period covered by our audit, CAFAS was not maintaining an inventory of its equipment and furnishings in the manner prescribed by OSD regulations. Therefore, there is inadequate documentation to substantiate in what programs these items were being used. Further, there is inadequate assurance that the $1,709,232 in equipment and furnishing items that were in the possession of CAFAS as of June 30, 1999 were being properly safeguarded against loss, theft or misuse. Based on its response, CAFAS's current management staff has taken measures to improve the inventory control system within the agency.

7. Other Matters for Consideration

In addition to the issues previously detailed in our report, during our audit we identified certain operational deficiencies that we believe warrant the attention of CAFAS's management, Board of Directors, and state oversight agencies. Specifically, (a) CAFAS's Board of Directors and respective committees did not record the minutes of all meetings, and (b) CAFAS providing what may be unreasonable compensation to its former Chief Executive Officer.

a. CAFAS's Board of Directors Did Not Maintain Minutes of All Meetings: According to CAFAS's corporate bylaws, the agency's Board of Directors and its committees "shall keep regular minutes of its meetings and report the same to the Board of Directors when requested." During our audit, we attempted to review all the minutes of the meetings of CAFAS's Board of Directors and the Committees for the period covered by our audit. The purpose of this review was to determine whether CAFAS's board was meeting all of its responsibilities as stated in the agency's corporate bylaws and was being responsive to various personnel and programmatic issues facing the agency. Although CAFAS provided us with the majority of these minutes, on November 9, 1999 a law firm representing CAFAS sent a letter to the audit team that stated, in part;

With regard to the specific records you are seeking, please be advised of the following:

- The Board meeting held on March 17, 1999 generated minutes, which I believe you have already reviewed and are welcome to review again at your convenience. The Board went into executive session after its regular meeting, at which no minutes were made or kept.

- The Executive Committee meeting held on January 27, 1999, was held in executive session and no minutes were made or kept.

- The Executive Committee meeting held on November 10, 1998 was held in executive session and no minutes were made or kept.

Because CAFAS did not keep minutes of these meetings as required by its corporate bylaws, there is inadequate assurance that the business conducted at these meetings was consistent with the agency's corporate bylaws.

b. Potentially Unreasonable Compensation Provided CAFAS's Former Chief Executive Officer: According to CAFAS officials, in December 1999, CAFAS's Board of Directors approved a separation agreement that it had negotiated with the agency's former Chief Executive Officer. These officials stated that, under the terms and conditions of this agreement, the former CEO would leave the agency effective December 22, 1999 and would receive compensation totaling $294,949, which according to CAFAS officials he was entitled to, in accordance with his most recently executed employment contract.

However, based on our review of the documents that were provided to us by CAFAS, we believe that the most recently executed employment contract for the former CEO and the subsequent separation agreement between the agency and this individual may contain compensation that, according to OSD regulations, may be unreasonable and therefore should not be charged against CAFAS's state-funded contracts. Examples of these potentially unreasonable costs include providing the former CFO with a $7,500 "signing bonus," a total 26.04 weeks of "unused paid leave," and six weeks of "additional paid leave," which resulted in CAFAS incurring a liability for this paid leave of $83,191; assigning the rights to two life insurance policies to him that had a cash surrender value of approximately $47,837; and providing him with a full year of salary, health insurance, disability insurance, FICA payments, and the costs of a leased vehicle for the 60-day period after the date of termination, totaling $156,421. This amount is to be paid to the former CEO over a period of 12 months after the date of his termination.

OSD, the agency responsible for regulating and overseeing the activities of contracted service providers such as CAFAS, has promulgated 808 CMR 1.05, which identifies specific expenditures that are nonreimbursable under state contracts. In this regard, 808 CMR 1.05 identifies the following as nonreimbursable costs under state contracts:

> Unreasonable Costs: Any costs not determined to be Reimbursable Operating Costs as defined in 808 CMR 1.02 or any amount paid for goods or services which is greater than either the market price or the amount paid by comparable Departments or other governmental units within or outside of the Commonwealth.

On July 1, 1999, CAFAS's Board of Directors entered into a new three-year employment contract with its former CEO, extending his employment with CAFAS until June 30, 2002. According to CAFAS officials, the Executive Committee of the agency's Board of Directors approved new provisions to this contract based on the annual performance evaluation of the CEO. This evaluation concluded that the former CEO exhibited "unique abilities, during his tenure at CAFAS, to facilitate the growth and expansion of the agency while combining excellent clinical skills and the ability to manage the business end of the agency." However, this evaluation also disclosed concerns relative to the former CEO's recent performance in the management of the agency. Specifically, the evaluation questioned various financial, programmatic, and personnel decisions made by the former CEO and their negative impact on the financial stability of CAFAS.

During our audit, we requested a copy of the separation agreement that CAFAS officials had told us had been executed by the agency with the former CEO. However, CAFAS officials would not allow us to review the actual separation agreement because, according to CAFAS's legal counsel, this agreement contains a confidentiality provision that specifically prohibits its disclosure. However, CAFAS's legal counsel informed us that the separation agreement only provided the compensation to the former CEO that was allowed by the most recently executed employment contract with this individual.

We compared provisions of the prior and current employment contracts and identified instances in which some of the compensation being provided to the former Chief Executive Officer under his new contract may be unreasonable in that they represent costs that are greater than those being provided by comparable human service agencies. This compensation is as follows:

- The CEO's prior contract provided him with an annual salary of $105,000, subject to annual increases or compensation, as determined by the agency's Board of Directors. During the last year of this contract (the fiscal year ending June 30, 1999), the former CEO was compensated $127,712, which represented a 21.6% increase in salary over the five-year contract period. The former CEO's current contract increased his salary to $135,000, which represented a 5.7% increase. Under the new contract, the former CEO was also awarded a $7,500 signing bonus, purportedly in recognition of the fact that the former CEO had not received a pay increase during the past few years. However, as previously stated, the former CEO's compensation increased approximately 21.6% over the past five-year period. Therefore, we question the reasonableness of this $7,500 signing bonus.

- The CEO's prior contract provided the former CEO an additional 10 weeks of paid leave that could be taken over the five-year period in addition to the annual paid leave granted under CAFAS's policies and procedures. The new contract granted him an additional six weeks of paid leave over and above what is allowed by CAFAS polices and procedures that he could take at anytime during the three-year term of his new contract. Although both contracts provided the former CEO with additional paid leave, the prior contract contained no provision allowing this time to be carried over to the current contract period and no provision that it may be converted to cash at the end of the contract and paid to the employee. However, the current contract, in addition to granting the former CEO an additional six weeks of paid leave that may be taken at any time, stipulates that the former CFO could convert this leave to cash at the end of the agreement. The current contract also stipulates that the former CEO could carry over up to 20 weeks of unused paid leave from his two prior employment contracts and this could be converted to cash at his or the Board of Director's discretion and paid to the former CEO. These changes in the current contract resulted in CAFAS's incurring a liability of $83,191. Given CAFAS's current fiscal condition, increasing the former CEO's paid leave benefits and making them redeemable for cash at the end of his employment may be unreasonable.

- Under the current contract, CAFAS included changes that resulted in the former CEO's acquiring the ownership rights to two insurance policies with a cash surrender value of approximately $47,837. CAFAS officials made additions to the current contract that stated that, upon termination of the agreement, CAFAS shall assign all rights in the policies to the former CEO, who will have full ownership of the policies.

- According to CAFAS officials, the separation agreement called for the former CEO to be paid a total of $156,421 in salary and benefits over a 12-month period after the effective date of his termination. CAFAS officials stated that the former CEO did not terminate the agreement, but that the confidentiality provision of the separation agreement precluded disclosure of the circumstances of the termination of the agreement. Our review of the job evaluation concluded by the Executive Committee of the Board of Directors cites serious issues concerning the management performance of the former CEO over the last few years, which have resulted in the current financial crisis at the agency. Moreover the agency's private accountant issued a note to the agency's financial

> statements citing going concern considerations on the agency's fiscal year 1999 Uniform Financial Report (UFR). Given the financial crisis at the agency, the concerns cited in the current evaluation, and the subsequent termination of the agreement less than six months after its execution, resulting in incurring this $156,421 liability in a time of financial crisis, we must question the reasonableness of entering into a new contract with the former CEO.

CAFAS's CFO stated that the money used to provide this compensation to the former CEO will be derived from non-state sources such as the sale of agency property and interest from agency investments. However, based on CAFAS's current fiscal condition, we question the reasonableness of some of the compensation being provided to the former CEO under this separation agreement.

Recommendation: CAFAS should ensure that its Board of Directors and committees maintain minutes of all meetings in accordance with CAFAS's bylaws. Also, CAFAS's principal state purchasing agency (DSS) should review the compensation being provided under this agreement and assess its reasonableness. OSD should take measures to ensure that any costs deemed to be unreasonable as a result of this review should not be allocated to CAFAS's state contracts.

Auditee's Response:

> The Board of the organization believes that it acted in the best interest of the agency and of the clients it serves in its deliberations related to the review and compensation of its former CEO. Where appropriate, the Board sought outside professional opinion and review from an executive compensation consultant and other appropriate professionals. It believes that its actions are consistent with industry standard for the size and location of the agency, and ultimately served the best interests of the organization.
>
> Because of its responsibility to the constituents it serves, the Board will be deliberate in its record keeping of the minutes of Executive Sessions of the Board. Going forward, meeting in Executive Session will be the exception rather than a standard practice of the Board.
>
> CAFAS will work diligently to resolve these issues completely and in a timely way. Our organization is committed to coming to swift closure to these discussions, so that the agency's focus may return fully to its new direction and its core services in a more concentrated geography, providing basic, essential services to children, youth and families.
>
> CAFAS thanks the State Auditor's Office for its vigilance and for the professionalism of its staff, particularly the individuals who worked on site at CAFAS. We look forward to inviting representatives of the office back in the future to see how the changes we have implemented in response to this report have taken hold at our agency.

Auditor's Reply: Based on its response, CAFAS's current management and its board have taken measures to address some of our concerns relative to these matters. However, we again recommend that CAFAS's principal state purchasing agency (DSS) review the compensation being provided to CAFAS's former Chief Executive Officer under the separation agreement and assess its reasonableness. Further, OSD should take measures to ensure that any costs deemed to be reasonable as a result of this review, should not be allocated to CAFAS's state contracts.

Other Agency Comments: CAFAS officials provided the following general comments:

> As you are aware, the agency has hired a new President and CEO and a new Chief Operating Officer . . . Board and staff are working together to deal with the issues raised in the report in a variety of ways related not only to practice and procedure, but to strategy as well. With our new administrative leadership, the Board has decided that, during the past several years the agency's focus on growth jeopardized the effectiveness of the overall operation. The Board and the new management have worked collaboratively to put in place a plan that marks a distinct change of direction. It emphasizes core services and concentrates on a geographic area close to its headquarters in the Acton/Concord area and the surrounding towns. We are also moving ahead aggressively to "right size" the organization and to provide a more stable financial platform from which to operate. . . .
>
> In sum, the Board and staff are taking actions to more closely align the services of the agency with its core mission and to stabilize the financial performance of the agency. We have been engaged in a thorough review of the organization's mission, programs and practices and have found the report to be a helpful tool in the process.
>
> In addition to those cited in the report, we want to bring to your attention additional significant subsequent events which have occurred since the conclusion of the fieldwork for the audit:
>
> - Working closely with the Department of Social Services, we decided to terminate our Bridge Home contract, which was accomplished on March 1, 2000. CAFAS, with DSS, is working to provide a smooth transition to the new service provider. The Board of Directors deemed the Bridge Home Program to be beyond its current definition of core services for youth and families and not financially viable for CAFAS.
>
> - An extensive review of real property needs in light of programmatic realities is ongoing. So far, this has resulted in the sale of three properties which will help address the agency's financial stability.
>
> - The Board has launched a campaign to raise significant additional unrestricted operating support from private sources by the end of the current fiscal year. It has begun a systematic reconnection with individual and organizational supporters of our work, in order to collaborate more effectively with other youth and family serving agencies.

- The Board of Directors has decided to divest the Brighton-Allston Mental Health Association clinic. It has determined that the geographic reach to Boston was beyond the agency's resources at this time. Initial bids from interested Boston-area agencies have been received. It is expected that the Board will approve the final sale by the end of May.
- The Board has decided that it will disengage from The Carlisle Institute—the SPIN USA project—by the end of its fiscal year on June 30th. The Board decided to support SPIN USA's plan to develop independently.

- Finally, as the organization plans its budget for next fiscal year, it is making prudent cost cuts where it does not affect the quality of care.

On the whole, the audit has helped the agency, under new leadership, chart a financially healthier, programmatically more consistent and geographically more compact course. We look forward to the opportunity to work with the appropriate state agencies to provide additional information that might bring more clarity to many of the specifics cited in the report and will bring resolution to some of the issues raised.

Auditor's Reply: Based on the aforementioned additional comments, CASAS's current management staff and its Board of Directors are taking positive measures to improve agency operations.

SUBSEQUENT EVENTS

The following significant events relative to CAFAS's operations took place after the completion of our audit field work:

- On September 30, 1999, CAFAS's consolidated Financial Statements for the fiscal year ended June 30, 1999 were issued. Note 16 of these statements entitled, "Going Concern Considerations," included the following information:

> The Organization incurred a negative change in net assets of $1,478,814 for the year ended June 30, 1999. Management expects that the Organization will continue to incur net losses through December 31, 1999.

- On December 22, 1999, CAFAS's Board of Directors announced that it had appointed a new President/CEO, Mr. Robert L. Gass. The former President/CEO was leaving to pursue other interests.

APPENDIX

Concord Assabet Family and Adolescent Services
Program Descriptions

I. SCHOOLS

1. Concord-Assabet School, Concord and Lexington: Special education and residential treatment school for emotionally troubled adolescent girls from all over New England.

2. Winthrop Day School, Acton: Special education, therapeutic program for emotionally troubled adolescents who cannot attend public school.

3. Brighton-Allston Mental Health Association, Inc.: A wholly owned subsidiary of Concord-Assabet Family and Adolescent Services (as of November 1996) provides comprehensive outpatient, residential diagnostic, and school-based emergency shelter services for children and adolescents.

4. Boston University Residential Charter School: A collaborative project between Boston University and the Carlisle Institute that provides a cooperative learning and living experience through residential treatment for high-risk youth.

II. GROUP HOMES

1. Group Homes, Belmont, Chelmsford, Concord, Lowell, West Concord, Westford: Supervised living and services to foster independence and/or family reunification for adolescents who attend public schools but do not live at home.

2. Bridge Homes Program, Waltham, Dedham: Comprehensive care assessment and treatment of children at risk. These homes are designed to be short-term placement settings with a maximum length of stay of 45 days and a maximum capacity of six children at each home. To be eligible, children must be between the ages 0-12 and in the care and custody of DSS, working toward family reunification or permanent placement.

III. CLINICS AND MENTAL HEALTH FACILITIES

1. Hospital Diversion/Step-Down/Partial Hospitalization Services: Acton residential and day treatment services for adolescents whose emotional needs cannot be met by attending public school, such as children discharged from psychiatric facilities who would benefit by a school program with a treatment component or for those children who may be able to avoid hospitalization by such a program.

2. Center for Family Counseling, Acton and Lowell: Comprehensive outpatient services and intensive home-based services for children, adolescents, and families; diagnostic, assessment and pre-screening services. Lowell: Comprehensive outpatient services for children and families enrolled in the Head Start Program at Community Teamwork, Inc.

3. Health, Education and Prevention Resource Center, Acton: Substance abuse education and prevention programs for infants, children, teens and families. Resource materials, technical assistance, training and monthly lecture series for health education professionals.

4. Concord Family Service, Concord: Comprehensive lifecycle outpatient counseling, family life education, intensive home-based services, prevention programs, older adult services, young parent and parent aide programs, adoption and post-legalization service, employee assistance programs.

IV. EMERGENCY SHELTERS

1. Emergency Shelters, Acton, Lowell, Tewksbury Crisis: Intervention, shelter, and emergency care for adolescents. All shelters are in neighborhood settings with house-parent supervision and transportation to local public schools and community activities.

V. VARIOUS PROGRAMS

1. Spin Video Training, Carlisle: Developed by the Dutch, over the last 20 years, Video Home Training (VHT) is a powerful home-based, state-of-the-art family intervention model that builds on family strengths and abilities to affect change rather than focusing on their problems and deficiencies. This program is currently licensed exclusively by Dutch founders (SPIN- Holland).

2. Mt. Wachusett: Providing outdoor adventure programs for at-risk youth in collaboration with the Massachusetts Department of Environmental Management.