



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

Making government work better

Official Audit Report – Issued October 30, 2015

North Cottage Program, Inc.

For the period July 1, 2012 through June 30, 2014





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Office of the State Auditor
Suzanne M. Bump

Making government work better

October 30, 2015

Paul Sullivan, Board President
North Cottage Program, Inc.
69 East Main Street
Norton, MA 02766

Dear Board President Sullivan:

I am pleased to provide this performance audit of North Cottage Program, Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2014. My audit staff discussed the contents of this report with management of the organization, whose comments are reflected in this report.

I would also like to express my appreciation to North Cottage Program, Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

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

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of North Cottage Program, Inc. for the period July 1, 2012 through June 30, 2014. North Cottage is a human-service agency located in Norton, Massachusetts, that provides drug and alcohol rehabilitation services to men aged 18 and over who are in various stages of recovery. The purpose of our audit was to determine whether North Cottage complied with certain laws, regulations, and other requirements pertinent to the operation of its state-funded programs. This audit was conducted as part of OSA's ongoing efforts to audit human-service contracting activity by state agencies and to promote accountability, transparency, and cost effectiveness in state contracting.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1a Page 5	Contrary to its contract conditions, management employees composed more than 30% of North Cottage's board. Also, contrary to its bylaws, the board had fewer than seven members.
Finding 1b Page 6	Contrary to its contract conditions, North Cottage's board did not review the executive director's performance.
Recommendations Page 6	<ol style="list-style-type: none">1. North Cottage should ensure that its board of directors has seven members comprising no more than 30% management employees.2. North Cottage's board of directors should review and document the executive director's performance each year and should base any change in his/her compensation on this performance review.

OVERVIEW OF AUDITED ENTITY

North Cottage Program, Inc. is located in Norton, Massachusetts, and was incorporated in 1970 under Chapter 180 of the Massachusetts General Laws as a not-for-profit human-service agency. It was formed for the purpose of providing rehabilitation to adult men with substance-abuse disorders and is licensed by the state Department of Public Health's Bureau of Substance Abuse Services. A more detailed description of the programs administered by North Cottage is included in the appendix to this report.

During fiscal years 2013 and 2014, North Cottage received revenue from the sources listed below.

Summary of Revenue

Revenue Source	Fiscal Year 2013	Fiscal Year 2014
Department of Public Health	\$ 2,652,462	\$ 3,051,111
Parole Board	142,000	136,888
Other Massachusetts State Agencies	236,400	363,973
Client Contributions and Fees	932,746	929,476
Private In-Kind*	12,064	–
Grants	–	75,000
Contributions, Gifts, Legacies, and Bequests	4,862	7,464
Investment Revenue	5,305	3,149
Other Revenue	164,886	61,459
Total Revenue	<u>\$ 4,150,725</u>	<u>\$ 4,628,520</u>

* The Commonwealth's Operational Services Division, in its UFR Audit & Preparation Manual, defines in-kind revenue as "the imputed revenue value of donated goods and personal services."

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of North Cottage Program, Inc. for the period July 1, 2012 through June 30, 2014.

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

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Are billings to the Department of Public Health supported by source documents and billed in accordance with North Cottage's state contracts?	Yes
2. Are expenses North Cottage charged against its state contracts reasonable, allowable, and allocable to its state contracts?	Yes
3. Did North Cottage's board of directors comply with the requirements of its state contracts and corporate bylaws regarding board composition and the evaluation of the organization's executive director?	No; see Findings 1a and 1b

We determined that internal controls over billings, expenses, and board governance were relevant to our audit objectives. We assessed the relevant controls with respect to billings and expenses. We identified deficiencies with internal controls regarding board governance that are discussed in detail in this report.

To accomplish our objectives, we performed the following activities:

- We conducted a survey to obtain an understanding of the types of programs North Cottage operates, and we performed a risk analysis to identify areas for potential further analysis.
- We examined financial records, both electronic and hardcopy, including pertinent source documents, and the Uniform Financial Statements and Independent Auditor's Reports that North Cottage is required to file with the Commonwealth's Operational Services Division (OSD) annually.

- We identified and reviewed applicable laws, rules, and regulations pertinent to our audit objectives, including the Commonwealth's Terms and Conditions for Human and Social Services as well as regulations published by OSD's Division of Purchased Services (Title 808 of the Code of Massachusetts Regulations).
- We reviewed board meeting minutes, organizational charts, policies and procedures, and internal financial reports.
- We determined the reliability of data from North Cottage's electronic accounting system by tracing certain electronic transactions to original source documents as well as performing other electronic tests of records and making relevant inquiries. We determined that the data from the system were sufficiently reliable for the purposes of our audit.
- We conducted a judgmental sample of certain transactions for review, primarily using a risk-based methodology. We did not project the sample results to the total population. We used judgmental samples because we believe that method was a better way to assess the relative significance of various costs and to evaluate the relative risks that some of these costs might not comply with existing regulations.
- With respect to judgmental samples selected, for billings to state-funded programs, North Cottage has about 146 individuals in its state-funded programs at a time. We selected 15 individuals at random to confirm the propriety of the billings to three state-funded programs (5 individuals per program). With respect to expenditures, we selected 15 expenditures on a random basis, out of 649 expenditures that were greater than or equal to \$500, for further review. With respect to credit-card expenses, we judgmentally selected 15 transactions from the monthly statements for review.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. North Cottage's board of directors did not have the correct number or composition of members, nor did it evaluate the executive director's performance.

Our audit of North Cottage identified several issues with both the composition and oversight activities of its board that are detailed below. These issues call into question the board's ability to operate in an independent and effective manner in the best interest of the organization.

a. The composition of North Cottage's board was not consistent with the requirements of its state contracts or corporate bylaws.

North Cottage did not ensure that its board had the seven members required by its corporate bylaws, nor did it ensure that fewer than 30% of the board members were management employees as required by the terms and condition of its state contracts. During most of our audit period, the board consisted of only five members, two of whom were management employees (the executive director and assistant director / program manager for business). Therefore, the board consisted of 40% management personnel.

Since the board is responsible for establishing overall guidance for the organization and providing oversight, a lack of sufficiently independent board members affects the internal control environment and the board's ability to operate effectively and in the best interest of the organization.

Authoritative Guidance

The board of directors of a human-service provider is the primary organizational body that ensures that the provider meets its operational objectives in the most effective and efficient manner. Board members should perform a variety of key fiduciary functions, including overseeing the overall operation of the organization; setting policies and procedures to ensure that objectives are met; hiring and evaluating the organization's top executive; and ensuring compliance with established laws, regulations, policies and procedures, and contractual obligations.

Section 11(a) of the Commonwealth's Terms and Conditions for Human and Social Services states, in part,

Members of the Contractor's management and immediate family . . . will not comprise more than 30% of the voting members of the Contractor's board or any of the board's committees or subcommittees.

Additionally, Article IV, Section 2, of North Cottage's bylaws states, "The number of directors shall be seven."

Reasons for Noncompliance

The executive director noted that most of the board members had served for a number of years and resigned because of difficulties in attending meetings, and that it is difficult to get qualified individuals to donate their time as a director. He pointed out that the number of directors had been a topic at past meetings and that discussions had taken place on how to increase membership. He also noted that North Cottage had recently added one board member and was trying to add more.

b. The board did not review the executive director's performance

North Cottage's board did not review the executive director's performance. As a result, there is inadequate assurance that the board affected proper oversight in this area by determining that the executive director adequately met all job-related responsibilities and that the level of compensation the executive director received during this period was appropriate based on performance.

Authoritative Guidance

Section 11(a) of the Commonwealth's Terms and Conditions for Human and Social Services states that the board of directors "will annually review its executive director's or other more senior manager's performance."

Reasons for Lack of Reviews

The executive director told us that the board was unaware of these requirements. In April 2015, after we brought this matter to the attention of North Cottage officials, the board conducted a performance review of the executive director.

Recommendations

1. North Cottage should ensure that its board of directors has seven members comprising no more than 30% management employees.

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2. North Cottage's board of directors should review and document the executive director's performance each year and should base any change in his/her compensation on this performance review.

Auditee's Response

The Executive Director agreed with our findings and included the following response.

Finding 1a . . . The Bylaws of North Cottage Program allow for inevitable vacancies on the Board of Directors. The language in the bylaws states that the board "may" appoint a replacement but it does not specify a time limit or the duration of the vacancy, nor does it actually specify a requirement for replacement. However; with the addition of a new board member . . . we have brought ourselves into full compliance.

Management employees had comprised 33 1/3% of the North Cottage Program board. We had, perhaps erroneously concluded that the 3.33% overage was not material. But here too we have brought ourselves to complete compliance with the addition of a new board member who is not an employee.

Finding 1b . . . The Executive Director reports on a quarterly basis to the Board of Directors. In the 40 years existence of North Cottage Program he has never missed a quarterly report to the Board of Directors. It was our belief that his performance was being evaluated during these quarterly reports as the board had full and ample opportunity to provide feedback on this performance and the minutes document their feedback and evaluation. Thus they reviewed the Executive Director's performance every quarter. In previous years a formal document was prepared annually reflecting this. However this practice was considered redundant and therefore dropped. Now, to ensure full compliance, at least annually such a document will be prepared and included in the records. As of April 15th, a performance evaluation was indeed conducted and has been included in the documentation. This procedure has now been adopted as a standard practice.

APPENDIX

North Cottage Program, Inc. Program Descriptions¹

Intensive Treatment Program

The Intensive Treatment Program (ITP) is a short-term component, providing clients with a foundation for recovery. It is designed for those who have had no previous residential treatment, and for those who have had multiple treatments with no continued recovery. The ITP has two highly structured phases and, upon completion, clients either transfer to our long-term Halfway House, or to another residential program. There are 50 clients in this component and the average length of treatment is 60 days.

Each client is assigned to a counselor who functions as both a therapist and case manager. Referrals for ancillary services are made as indicated, and include services for medical, psychiatric, legal, vocational, and housing issues.

Residents receive at least 1-hour of individual therapy, and 7-hours of group therapy per week. There is at least one discussion group per day. ITP residents may initiate a "call group" at any time for group support and feedback. All residents attend a 13-part series of educational seminars on a variety of health, addictions and living skill topics. There are two weekly meetings to increase familiarity with the principles of self-help groups including Alcoholics Anonymous and Narcotics Anonymous. Residents attend community based self-help meetings every night. ITP residents are not permitted to work, drive personal vehicles, or have overnight passes.

Recreation activities are encouraged and include volleyball, pool tables, library/reading room, television, the local library, and free day passes for the local YMCA.

Halfway House

The Halfway House is a long-term residential facility for substance abuse treatment. Clients admitted to the halfway house have recently completed a short-term rehabilitation program and/or have a history of significant periods of recovery. There are 65 clients in this component. The maximum length of treatment is 180 days.

On entering the program, the client is assigned to a counselor who functions as both therapist and case manager. Referrals to ancillary services are made as indicated, including medical, psychiatric, legal, vocational and housing services. Residents receive at least 1-hour of individual therapy and 5-hours of group therapy per week. There is at least one discussion group each day. Additional group therapy addresses [adult children of alcoholics] issues, same sex orientation issues, trauma survivors, issues for ex-convicts, relapse prevention, and smoking cessation. All residents attend a 13-part series of didactic educational seminars on a variety of health, addictions and living skill

1. The text of this appendix is quoted from North Cottage's website at <http://northcottage.com>. Client capacity numbers from the website were updated with more current numbers.

topics. There are two weekly meetings to introduce clients to self-help support groups including Alcoholics Anonymous and Narcotics Anonymous.

Residents are required to attend a self-help meeting in the community a minimum of 3 nights per week. Halfway House residents are eligible for employment, personal driving permission and overnight weekend passes (with counselor's approval).

Multiphase Unit

The Multi-Phase Unit consists of clients who are either in the Phase I Intensive Treatment or the Phase II Halfway house levels of treatment. Clients remain in this unit throughout the course of treatment. This 31-bed component is a multi-phased, goal-oriented program for adult males in the earliest stages of recovery from substance abuse. Treatment plans are individualized and include:

Individual and group counseling, substance abuse education, health education, vocational and education assistance, self-help participation, housing services, legal assistance, referral to medical and psychiatric services, and aftercare counseling. Additional voluntary therapy groups are available at the clients' request or the counselors' recommendation.

Sober House Norton

Located in Norton, MA this freestanding residence houses 107 men. The program is funded by the weekly fees paid by the residents and is supervised by an on-site house manager and the Graduate Program Manager. The goal of this component is to move residents closer to their ultimate goal of independent living, through self-help participation, employment and other daily activities, and continued recovery from substance abuse. The length of stay is indefinite providing that residents are in compliance with the house policies and procedures.

Sober House Attleboro

Located in Attleboro, MA, this freestanding residence houses 21 men. The program is funded by the weekly fees paid by the residents and is supervised by an on-site house manager and the Graduate Program Manager. The goal of this component is to move residents closer to their ultimate goal of independent living, through self-help participation, employment and other daily activities, and continued recovery from substance abuse. The length of stay is indefinite providing that residents are in compliance with the house policies and procedures.