



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

*Making government work better*

Official Audit Report-Issued February 6, 2014

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**The New England Center for Children, Inc.**  
For the period July 1, 2010 through December 31, 2012





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

*Making government work better*

February 6, 2014

L. Vincent Strully, Jr., Chief Executive Officer  
The New England Center for Children, Inc.  
33 Turnpike Road  
Southborough, MA 01772

Dear Mr. Strully:

I am pleased to provide this performance audit of the New England Center for Children, Inc. This report details the audit objectives, scope, methodology, and results for the audit period, July 1, 2010 through December 31, 2012. My audit staff discussed the contents of this report with management of the agency.

I would also like to express my appreciation to the New England Center for Children, 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 has conducted a performance audit of certain activities of the New England Center for Children, Inc. (NECC) for the period July 1, 2010 through December 31, 2012. The objectives of our audit were to examine NECC's internal controls, reporting, and compliance pertaining to (1) compensation and benefits provided to NECC's managers and directors; (2) non-payroll administrative costs, including childcare programs operated for employee-benefit purposes; (3) related-party transactions; (4) Uniform Financial Statements and Independent Auditor's Reports and associated representations made to the Commonwealth's Operational Services Division (OSD); and (5) NECC's adherence to OSD's established pricing limitations.

### ***Summary of Findings and Conclusions***

NECC has established internal control policies and procedures that it believes provide reasonable assurance that organizational objectives and compliance obligations are met and that associated risks such as those for fraud, waste, and abuse are minimized. For reviewed areas related to our audit objectives, we did not identify any significant internal control deficiencies warranting attention by those responsible for governance.

## OVERVIEW OF AUDITED AGENCY

### *Background*

The New England Center for Children, Inc. (NECC), located in Southborough, Massachusetts, was founded in 1975 and incorporated as a not-for-profit organization in 1980 with a mission “to transform the lives of children with autism worldwide through education, research, and technology,” per its website. Using a staff of over 800 employees, NECC provides a variety of educational, social, and residential services to over 400 children from its main office and school campus in Southborough, with residential service locations in nearby communities. NECC also provides training and consultation services to parents, educators, and social-service professionals throughout New England. In addition, NECC operates outside the United States in Abu Dhabi, where it serves over 60 children. Services are also provided in the United Kingdom through a controlled affiliate<sup>1</sup> and, from time to time, in other nations on a case-by-case basis. NECC’s special-education school programs within the Commonwealth are purchased by local school districts at reimbursement rates promulgated by the Commonwealth’s Operational Services Division (OSD). School, residential, and related services are also purchased by various Massachusetts state agencies and by governmental entities in other states.

### NECC Summary of Revenue<sup>1</sup> Three Fiscal Years Ended June 30

| Revenue Source   | Fiscal Year 2013    | Fiscal Year 2012    | Fiscal Year 2011    |
|--|---------------------|---------------------|---------------------|
| Department of Children and Families  | \$ 1,263,336        | \$ 1,177,046        | \$ 1,098,376        |
| Department of Developmental Services   | 390,692             | 397,618             | 829,478             |
| Department of Public Health  | –                   | 192,350             | 238,370             |
| Other Massachusetts State and Local Government   | 35,019,856          | 32,720,917          | 30,388,144          |
| Non-Massachusetts State and Local Government   | 21,111,967          | 19,661,867          | 19,212,741          |
| Other Support for Publicly Sponsored Clients   | 20,536              | 20,535              | 34,918              |
| Private Client Fees and Third-Party Payments   | 2,197,139           | 1,667,794           | 961,689             |
| Contributions and Non-Government Grants,<br>Including In-Kind Grants                               | 1,915,006           | 1,281,943           | 2,076,245           |
| Other Revenue, Including Investments, and Non-<br>Massachusetts Government Surcharges <sup>2</sup> | 4,102,678           | 3,310,627           | 2,446,058           |
| Total Revenue  | <u>\$66,021,210</u> | <u>\$60,430,697</u> | <u>\$57,286,019</u> |

(1) This information was taken from the Uniform Financial Statements and Independent Auditor’s Reports that NECC filed with the Commonwealth. Amounts reported for fiscal year 2013 are for the full year, rather than the first six months of that year that were covered by our audit period.

(2) Non-Massachusetts Government surcharges are OSD-authorized surcharges to government agencies in other states that send clients to NECC’s Massachusetts programs.

<sup>1</sup> As required by the laws of the United Kingdom, a separate commonly controlled affiliate entity, the New England Center for Children London Limited, has been established to provide services to a single client there.

## 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 the New England Center for Children, Inc. (NECC) for the period July 1, 2010 through December 31, 2012. The objectives of our audit were to examine NECC's internal controls, reporting, and compliance pertaining to (1) compensation and benefits provided to NECC's managers and directors; (2) non-payroll administrative costs, including childcare programs operated for employee-benefit purposes; (3) related-party transactions; (4) Uniform Financial Statements and Independent Auditor's Reports (UFRs) and associated representations made to the Commonwealth's Operational Services Division (OSD); and (5) NECC's adherence to OSD's established pricing limitations.

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.

To accomplish our audit objectives, we:

- Gained an understanding of NECC and its governance, management, and operations by reviewing organization materials, reports, and public filings and interviewing members of NECC's staff and representatives of its audit firm.
- Reviewed and analyzed reports of prior reviews conducted by other oversight entities, including the Federal Centers for Medicare and Medicaid Services and the Commonwealth's Department of Elementary and Secondary Education, Department of Early Education and Care, and Department of Developmental Services.
- Identified and reviewed applicable laws, rules, or regulations pertinent to our objectives.
- Reviewed and analyzed NECC's annual UFRs and other public filings.
- Reviewed and analyzed NECC's policy- and control-related information and assessed risks related to fraud, noncompliance, or other deficiencies related to our audit objectives.
- Obtained electronic and hardcopy accounting data for review and analysis and determined their reliability by reviewing data-reliability-analysis workpapers prepared by the independent audit firm responsible for auditing NECC's annual financial statements and by selecting source

documents and tracing them through the system. We determined that the data processed through the system were sufficiently reliable for the purposes of our audit.

- Selected certain transactions, primarily by using judgmental sample selection, for further examination to assess selected NECC controls that we deemed pertinent to our objectives and to determine whether transactions were adequately supported, reasonable, allowable, and allocable to publicly funded programs. We used judgmental samples because this sampling technique allowed us to focus on relative materiality and risk of various costs.

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

- Controls over employee time and activity reporting, particularly for senior managers
- Controls over NECC administrative vehicles
- Controls over credit-card use and employee reimbursements, particularly for senior managers
- Controls over related-party transactions
- Controls over UFR reporting
- Controls over the use of special education program prices established by OSD

We assessed the operating effectiveness of the relevant controls identified above and did not identify significant control deficiencies or other deficiencies pertaining to our audit objectives that warranted attention by those responsible for governance.

At the conclusion of our audit work, we provided a draft copy of this audit report to NECC management, who did not provide a written response to be excerpted in the final report.

**AUDIT RESULTS AND CONCLUSIONS**

The New England Center for Children, Inc. has established internal control policies and procedures that it believes provide reasonable assurance that organizational objectives and compliance obligations are met and that associated risks such as those for fraud, waste, and abuse are minimized. For reviewed areas related to our audit objectives, we did not identify any significant deficiencies warranting attention by those responsible for governance.



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**APPENDIX****BOARD OF DIRECTORS AND OFFICERS LIST  
2012-2013****Officers**

L. Vincent Strully, Jr.:  
President (Chief Executive Officer)

Michael F. Downey, Sr.:  
Treasurer (Chief Financial Officer during audit period)

Katherine E. Foster:  
Executive Vice President (Chief Operating Officer)

Peter S. Johnson:  
Assistant Clerk

RoseAnn Lovely:  
Clerk (Chief Development Officer)

**Directors**

Lisel Macenka:  
Chair of the Board  
Executive Committee  
Nominating Committee

L. Vincent Strully, Jr.:  
Executive Committee, Chairman  
Nominating Committee

Katherine E. Foster:  
Program Committee

RoseAnn Lovely:  
Development Committee

James C. Burling:  
Vice Chair of the Board  
Executive Committee  
Executive Compensation

Kenneth J. Deveaux:  
Audit Committee

Michael S. Dukakis:  
Development Committee

Neal J. Faulkner:  
Executive Compensation Committee  
Executive Committee

Marvin N. Geller, Esq.:  
Director Emeritus

Harry M. Hutson, Jr.:  
Executive Compensation Committee, Chairman

John Y. Kim:  
Audit Committee  
Nominating Committee

Warren Lawson:  
Director Emeritus  
Audit Committee

John E. Marston:  
Development Committee

Olivia Morgan:  
Program Committee

Ben Niedermeyer:  
Audit Committee

Stuart M. Rose:  
Audit Committee, Chairman  
Executive Compensation Committee

Jean O'Hara Sheridan:  
Nominating Committee, Chair

Robert K. Sheridan:  
Executive Committee  
Executive Compensation Committee