



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

*Making government work better*

Official Audit Report – Issued October 20, 2016

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## Aditus Inc.

For the period July 1, 2013 through December 31, 2015





Commonwealth of Massachusetts  
Office of the State Auditor  
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*Making government work better*

October 20, 2016

Ms. Susan Lakso, President and Chief Executive Officer  
Aditus Inc.  
11 Glendale Road  
East Longmeadow, MA 01028

Dear Ms. Lakso:

I am pleased to provide this performance audit of Aditus Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through December 31, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to Aditus 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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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>OVERVIEW OF AUDITED ENTITY .....</b>	<b>2</b>
<b>AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY .....</b>	<b>3</b>
<b>DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....</b>	<b>5</b>
<b>1. Aditus charged \$22,136 in unallowable administrative expenses against its state contracts. ....</b>	<b>5</b>
<b>APPENDIX .....</b>	<b>9</b>

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## LIST OF ABBREVIATIONS

CMR	Code of Massachusetts Regulations
OSA	Office of the State Auditor
OSD	Operational Services Division
UFR	Uniform Financial Statement and Independent Auditor's Report

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## EXECUTIVE SUMMARY

Aditus Inc., founded in 1983, is a not-for-profit human-service agency located in East Longmeadow. During the audit period, Aditus operated programs that offered services including supported group employment, school-to-work transition education, and comprehensive integrated employment services to developmentally disabled people living in Hampden and Hampshire Counties.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of Aditus for the period July 1, 2013 through December 31, 2015. The purpose of the audit was to assess whether Aditus's use of credit cards and compliance with the Supplier Diversity Program's reporting requirements were consistent with applicable laws, regulations, contractual terms and conditions, and other guidance. This audit was conducted as part of OSA's ongoing efforts to audit human-service contract activity by state agencies and to promote accountability, transparency, and cost-effectiveness in state contracting.

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

<b>Finding 1</b> <b>Page <a href="#">5</a></b>	Aditus charged \$22,136 of nonreimbursable costs to state contracts.
<b>Recommendations</b> <b>Page <a href="#">6</a></b>	<ol style="list-style-type: none"><li data-bbox="435 1146 1453 1304">1. Aditus should collaborate with the state's Operational Services Division to determine whether it should repay the unallowable \$13,615 from fiscal years 2014–2015 or, if possible, refile its Uniform Financial Statements and Independent Auditor's Reports (UFRs) for those fiscal years and properly classify these expenses as nonreimbursable costs.</li><li data-bbox="435 1335 1453 1430">2. Aditus should ensure that the \$8,521 of costs that we identified as nonreimbursable expenses for fiscal year 2016 are appropriately classified as such in its fiscal year 2016 UFR.</li><li data-bbox="435 1461 1453 1556">3. Aditus should establish adequate internal controls to ensure that all nonreimbursable expenses it incurs are properly identified and reported as such in its UFRs and that no state funds are used to pay for them.</li></ol>

## OVERVIEW OF AUDITED ENTITY

Aditus Inc., located in East Longmeadow, was incorporated on July 1, 1983 under Chapter 180 of the Massachusetts General Laws as a not-for-profit human-service agency. During our audit period, Aditus operated programs that provided various services, primarily for developmentally disabled people, including supported group employment, school-to-work transition, adolescent community residential services, individual supported employment, and community-based supported day services. A detailed description of the programs that Aditus operated during our audit period appears in the appendix to this report.

During the audit period, Aditus received revenue from the sources listed below.

### Summary of Revenue

Revenue Source	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016*
<b>Department of Developmental Services</b>	\$ 855,437	\$ 903,120	\$ 544,386
<b>Department of Children and Families</b>	239,382	239,887	88,964
<b>Massachusetts Rehabilitation Commission</b>	240,525	247,962	114,411
<b>Other Massachusetts State Agency Purchase of Service</b>	5,136	102	0
<b>Massachusetts State Agency Non-Purchase of Service</b>	467,375	0	0
<b>Massachusetts Local Government/Quasi-Government Entities</b>	316,759	266,583	0
<b>Non-Massachusetts State/Local Government</b>	183,672	30,344	0
<b>Client Resources</b>	10,941	16,990	9,167
<b>Commercial Activities</b>	2,250	947	39
<b>Investment Revenue</b>	707	501	99
<b>Other Revenue</b>	7,748	2,226	2,724
<b>Total</b>	<u>\$2,329,932</u>	<u>\$1,708,662</u>	<u>\$ 759,790</u>

\* Through December 31, 2015.

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Aditus Inc. for the period July 1, 2013 through December 31, 2015.

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. Does Aditus have, and follow, formal policies for credit-card use?	No; see Finding <u>1</u>
2. Are credit-card expenditures reasonable, documented, and allowable?	No; see Finding <u>1</u>
3. Did Aditus comply with the Supplier Diversity Program's reporting requirements under Executive Order 565, and was the reported information accurate?	Yes

With respect to the activity that was pertinent to our audit objectives, during our audit period Aditus spent \$165,284 through five different credit-card accounts. Also, for fiscal years 2014 and 2015, it reported spending a total of \$56,455 with two vendors under the Supplier Diversity Program.

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls, which were as follows:

- credit-card expenses
- the Supplier Diversity Program

We identified deficiencies with internal controls over costs charged to credit cards, which are discussed in the Detailed Audit Findings with Auditee's Response section of this report.

To accomplish our objectives, we identified and reviewed applicable laws, rules, and regulations that were pertinent to our audit objectives, including regulations published by the state Operational Services Division's (OSD's) Division of Purchased Services (Title 808 of the Code of Massachusetts Regulations).

We also performed the following procedures:

- We obtained and reviewed the organization chart and financial records in both electronic and hardcopy forms, including pertinent source documents and the Uniform Financial Statements and Independent Auditor's Reports that Aditus filed with OSD annually.
- We interviewed key officials and reviewed all the minutes of the meetings of the Aditus board of directors that occurred during the audit period.
- We identified and reviewed applicable laws, regulations, agency policies, and procedures relevant to our audit objectives, as well as the Commonwealth's general terms and conditions for human- and social-service contracts, which applied to Aditus's state contracts.
- We obtained an understanding of the processing of credit-card expenses.
- We judgmentally selected a nonstatistical sample of 110 credit-card expenditures, totaling \$46,575 (with an emphasis on testing the larger dollar values), out of a population of \$165,284 credit-card expenses to determine whether amounts were charged to proper accounts and were allowable costs.
- We obtained monthly credit-card statements and listed amounts paid as late fees and finance charges.
- We reviewed the annual filing of expenditures under the Supplier Diversity Program to confirm that reported expenditures were correct and that the vendors were state-certified.

Whenever sampling was used, we applied a nonstatistical approach, and as a result, we were not able to project our results to the population.

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



## DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE

### 1. Aditus charged \$22,136 in unallowable administrative expenses against its state contracts.

During the audit period, Aditus charged \$22,136 of expenses against its state contracts that were unallowable according to state regulations. This \$22,136 could have been used by Aditus’s state contracting agencies to pay for program-related expenses for clients. Further, Aditus did not report these costs as nonreimbursable in the Uniform Financial Statements and Independent Auditor’s Reports (UFRs) it filed with the state’s Operational Services Division (OSD). As a result, Aditus’s UFRs for fiscal years 2014 and 2015 did not provide the required level of transparency.

A summary of these expenses by fiscal year is shown below.

Expenses	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Total
<b>Undocumented</b>	\$ 2,942	\$ 436	\$ 787	\$ 4,165
<b>Non-program</b>	2,192	3,072	5,954	11,218
<b>Luxury Items</b>	204	0	1,495	1,699
<b>Credit-Card Interest and Penalties</b>	1,231	983	285	2,499
<b>Costs That Should Have Been Capitalized</b>	–	2,555	–	2,555
<b>Total</b>	<u>\$ 6,569</u>	<u>\$ 7,046</u>	<u>\$ 8,521</u>	<u>\$ 22,136</u>

The expenses were as follows:

- Undocumented expenses that had no receipts or had receipts that were not itemized to identify exactly what items were purchased.
- Non-program expenses that did not relate directly to the purposes of Aditus’s programs. These items included \$4,261 for catering an open house at an agency property that had recently been rehabilitated, as well as gifts for employers of clients, board members, members of a human-rights committee, and community supporters. There were also gifts for the staff, such as a thank-you dinner for helping to move on a Saturday, gift cards for working during a snowstorm, pies at Thanksgiving, and a retirement brunch for an employee.
- Luxury items—specifically, purchases of alcoholic beverages on two occasions. On one occasion, Aditus purchased \$1,495 of alcoholic beverages (to be served during the open house at the rehabilitated agency property). On another occasion, it purchased cases of wine that were decorated and then given as gifts to employers of clients during the winter holidays.

- Credit-card interest and penalties related to the payment of late fees, and finance charges on the company credit cards, incurred because payments were not made on time.
- A capital item (the total cost of installing flooring in one of its buildings) that Aditus expensed rather than depreciating its cost over the prescribed time period.

## Authoritative Guidance

Section 1.05 of Title 808 of the Code of Massachusetts Regulations (CMR) states that certain costs are nonreimbursable under state contracts, including the following:

- costs that are not adequately documented (808 CMR 1.05[26])
- non-program expenses (808 CMR 1.05[12])
- luxury items, including alcoholic beverages (808 CMR 1.05[23])
- certain types of interest, including credit-card debt (808 CMR 1.05[3d])
- costs attributable to the current expensing of a capital item (808 CMR 1.05[4])

Additionally, OSD guidelines require Aditus to identify any nonreimbursable costs it incurs in the UFRs it is required to submit to OSD annually. According to OSD's UFR Audit and Preparation Manual, if, during an audit, an auditor identifies any nonreimbursable costs that were not reported in an entity's UFRs, the following applies:

*It is presumed that Commonwealth and Federal funds have been used to defray non-reimbursable costs when those costs are not adequately disclosed.*

## Reasons for Noncompliance

Aditus had not established adequate internal controls to ensure that all nonreimbursable expenses it incurs are properly identified and reported as such in its UFRs and that no state funds are used to pay for them.

## Recommendations

1. Aditus should collaborate with OSD to determine whether it should repay the unallowable \$13,615 from fiscal years 2014–2015 or, if possible, refile its UFRs for those fiscal years and properly classify these expenses as nonreimbursable costs.
2. Aditus should ensure that the \$8,521 of costs that we identified as nonreimbursable expenses from fiscal year 2016 are appropriately classified as such in its fiscal year 2016 UFR.

3. Aditus should establish adequate internal controls to ensure that all nonreimbursable expenses it incurs are properly identified and reported as such in its UFRs and that no state funds are used to pay for them.

## **Auditee's Response**

The attorney for Aditus provided the following response.

### ***Undocumented***

*Aditus refutes the audit's preliminary findings on the grounds that certain expenses were improperly characterized as "undocumented." The expenses . . . are, in fact, documented. Indeed, all such expenses are supported by an underlying receipt and specific information pertaining to the purchase. Importantly, the accounting for these itemized expenses complies with 808 CMR 1.05(26), applicable [Internal Revenue Service] rules and regulations, and the American Institute of Certified Public Accountants statements on auditing standards. . . .*

### ***Non-Program***

*The majority of expenses incorrectly classified by the audit as non-program expenses are expenses that are directly related to employee appreciation, recognition, and overall wellness and, as such, are allowable under the Code of Massachusetts Regulations. Indeed, purchasing pies for employees at Thanksgiving and other thank you and appreciation gifts (such as a thank you dinner and retirement brunch) are nominal "fringe benefits." They are important for morale and have a direct bearing on the quality of services employees deliver. Further, they are important for employee retention because they directly impact continuity of services to disabled clients, which is essential for clients' overall health and well-being.*

*Moreover, the disallowance of de minimis gifts to the employers of our clients as well as other community members was in error. Such expenses are most definitely program related. In fact, such expenses are directly related to our programmatic objectives to locate, develop, secure, and maintain employment opportunities for our clients.*

*In addition, the disallowance of inexpensive office chairs and ancillary furniture for program employees as well as a laptop bag specifically used by a program employee to attend programs to perform their job duties is an allowable expense. Indeed, it would be unreasonable to expect employees to perform their duties without furniture. Disallowing such an expense would be nonsensical.*

### ***Luxury Items***

*The disallowance of the purchase of cases of wine to be given as a holiday gift to employers of clients (specifically for the purpose of employer development) is not a luxury item within the meaning of 808 CMR 1.05(23). Luxury items are items purchased for management's own benefit, such as vacation homes, boats, airplanes, or alcohol for his/her own personal consumption and use.*

*All of the items noted above along with the ones noted in the audit are otherwise de minimis. . . . To the extent any costs are ultimately deemed to be unallowable, Aditus will work with its auditors to amend its UFRs as necessary.*

## **Auditor's Reply**

With its written response, Aditus did provide receipts that it was able to obtain from some of its vendors for expenses that we originally questioned. We removed those expenses from our report based on this additional documentation. The undocumented-expense total presented in our report now accurately reflects all of the expenses that Aditus billed against its state contracts for which there was inadequate supporting documentation. The fact that Aditus had to contact its vendors to obtain this documentation further substantiates our concern that Aditus itself does not maintain adequate documentation to support all of the expenses it bills against its state contracts as required by state regulations.

Of the total questioned non-program-related expenses, the largest single expense was \$4,261 spent on food for a party held upon completion of renovations to one of Aditus's properties. Although we do not object to Aditus's celebrating such an event, since the consumers in Aditus's state-funded programs did not benefit from this party, the expense is clearly not program related, and therefore its cost should not have been paid for with state funds. Other questioned non-program-related expenses included \$627 for detailing the chief executive officer's vehicle and \$173 on floor mats for the vehicle, which are also not program related. Further, using state funds to purchase alcohol, regardless of the purpose, is strictly prohibited under state regulations.

Regarding the other items that Aditus says were related to employee appreciation, recognition, and overall wellness, we do not dispute that employee recognition is one way of maintaining high employee morale. OSD guidance allows such expenses to be paid for with state funds when they are provided under an established agency policy in a nondiscriminatory manner. However, these gifts that Aditus characterizes as fringe benefits were only provided to certain individuals, were not provided under an established agency policy, and are therefore nonreimbursable.

Finally, in its response, Aditus states that the amounts identified in our report are "de minimis" and adds, "To the extent any costs are ultimately deemed to be unallowable, Aditus will work with its auditors to amend its UFRs as necessary." Although some of the individual expenses we identified involved small dollar amounts, our audit testing found problems with almost half of the credit-card expenses we reviewed. This points to significant systemic problems in this area. Therefore, we again recommend that Aditus establish adequate internal controls to ensure that all nonreimbursable expenses it incurs are properly identified and reported as such in its UFRs.

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## APPENDIX

### Aditus Inc. Program Descriptions<sup>1</sup>

#### Supported Group Employment Services

*Supported Group Employment Service for people from twenty-two (22) until retirement*

*Aditus has a long history of providing Supported Group Employment opportunities for individuals who have a major life goal of work with the purpose of obtaining financial security, personal fulfillment, and meaningful participation in their community and who choose to work in a supervised group in the community.*

*Choosing the right job is, for any job seeker, a haphazard or imprecise process, at best. The Aditus career development process is designed to organize and systematize the process of finding the right job for the individual to increase the probability for placement and long term job success. Aditus developed the "Condensed Assessment and Inventory Tool" (A Systematic Process for Choosing a Job) as a simple, straightforward job match tool.*

*Aditus believes that although detailed job duty analysis, identification and use of community and workplace supports, systematic instruction, compensatory strategies, orientation training, and workplace accommodation are all basic to successful job training, the key to successful job placement is ensuring the individual's involvement in all decisions regarding his or her training. To assure that individuals are directing their own careers, they need to assist in the development of the job duty analysis, selection of instructional procedures, design and purchase of any assistive devices, and the identification and design of any compensatory strategies.*

#### School to Work Transition

*School to Work Transition Education Service for people from fourteen (14) to twenty-two (22)*

*Baldwin Street School to Work Transition Education Service offers an individualized, creative alternative to public school or alternative schools in that it provides individualized, customized education, social emotional and therapeutic services to meet the needs of each individual served as well as Functional Vocational Evaluations, and Functional Behavioral Assessments. . . .*

*Baldwin Street School to Work Transition Education Service is approved by the East Longmeadow Public Schools and School Committee and approved by the Massachusetts Department of Elementary and Secondary Education as a sole source placement.*

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1. The text of this appendix is quoted from the Aditus website at [www.aditus-inc.org](http://www.aditus-inc.org).

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## Adolescent Community Residential Services

*Ashley Farm Adolescent Educational/Residential Service, a twenty-four hour educational/residential service for people fourteen (14) to twenty-two (22)*

*Ashley Farm Educational/Residential Service is a creative, community based alternative to traditional 24-hour residential schools in that it provides customized educational/residential services designed to meet the needs of each individual served.*

*Ashley Farm Educational/Residential Service provides for the adolescent's health, safety, nutritional, education, social/emotional, and vocational needs and helps each individual strive toward the overarching goal of self-directed living.*

*Each adolescent is provided with his/her own bedroom, ample living and educational space. Each site offers two individual suites (each with an individual bedroom, bathroom, and study) and two bedrooms that share a bathroom and study as well as a common living room, dining room, and kitchen.*

## Comprehensive Integrated Employment Services and Individual Employment Services

*Comprehensive Integrated Employment Service for people from twenty-two (22) until retirement*

*Individual Competitive Employment Service for people from twenty-two (22) until retirement*

*Aditus has a long history of facilitating Individual Employment opportunities for individuals who have a major life goal to work for the purpose of obtaining financial security, personal fulfillment, and meaningful participation in their community, and has successfully developed and placed individuals in hundreds of jobs.*

*Since its inception, Aditus has designed, developed and continues to enhance its custom "state of the art" data management system. Information from this system coupled with reports from individuals has taught us that job match, transportation, work hours, people's (and family's) desire to keep [Supplemental Security Income and Social Security Disability Insurance] case benefits at a consistent level, and a desire to spend time with friends are all reasons for job placement failure. . . .*

*Aditus believes that the individual must direct the process of developing his/her career plan and securing his/her job of choice. The Aditus career development process is designed to organize and systematize the process of finding the right job for the individual to increase the probability of placement and long term job success. Aditus developed the "Condensed Assessment and Inventory Tool" (A Systematic Process for Choosing a Job) as a simple, straightforward job match tool, to give a degree of confidence that goes beyond the "it feels right" approach to job matching, but stops short of the total confusion caused by more formal, lengthy and "test" orientated approaches.*

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## Community Based Day Supported Services

*Community Based Day Service for people from twenty-two (22) through retirement*

*Community Based Day Services support:*

- *Individuals who are employed part time and need a structured and supervised program of services during the day including opportunities for socialization and peer support*
- *Individuals of retirement age who currently work at less than 25% of productivity and need/want to participate in a structured and supervised program of services in a group setting*
- *Individuals of working-age who are on a "pathway" to employment and who on some days can work successfully in a group supported employment setting, but on other days have behavioral challenges that it make it difficult for them to work*
- *Individuals who need an alternative program when work is not readily available in their group work site*