



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

Making government work better

Official Audit Report – Issued December 22, 2015

Criterion Child Enrichment, Inc.
For the period July 1, 2013 through June 30, 2014





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Making government work better

December 22, 2015

Dr. Robert F. Littleton Jr., President
Criterion Child Enrichment, Inc.
321 Fortune Boulevard
Milford, MA 01757

Dear Dr. Littleton:

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

I would also like to express my appreciation to Criterion Child Enrichment, Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

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|------|--|
| CCEI | Criterion Child Enrichment, Inc. |
| HSMC | Human Services Management Corporation |
| OSA | Office of the State Auditor |
| OSD | Operational Services Division |
| UFR | Uniform Financial Statement and Independent Auditor's Report |

EXECUTIVE SUMMARY

Criterion Child Enrichment, Inc. (CCEI), headquartered in Milford, Massachusetts, was incorporated in 1984 as a private not-for-profit human-service agency providing various early childhood intervention, education, and support services to children and their families at locations throughout Massachusetts. During our audit period, CCEI had more than 200 staff members and received the majority of its funding from contracts with state agencies.

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 CCEI for the period July 1, 2013 through June 30, 2014. The purpose of our audit was to review certain aspects of CCEI's operations to determine whether the agency had established adequate internal controls and complied with applicable laws, regulations, and contractual requirements in the areas reviewed. This audit was conducted as part of OSA's ongoing efforts to audit human-service contracting activity by state agencies and to promote greater accountability, transparency, and cost-effectiveness in state contracting.

Our audit found that CCEI had established adequate internal controls and complied with applicable laws, regulations, and contractual requirements in the areas reviewed.

OVERVIEW OF AUDITED ENTITY

Criterion Child Enrichment, Inc. (CCEI), located in Milford, Massachusetts, was incorporated on December 1, 1984 under Chapter 180 of the Massachusetts General Laws as a private not-for-profit human-service agency. During our audit period, CCEI employed more than 200 people to provide early childhood intervention, education, and support services to children (see Appendix). It operates from locations throughout Massachusetts. During fiscal year 2014, CCEI received revenue from the following sources:

| Revenue Source | Amount |
|---|----------------------------|
| Department of Public Health | \$ 3,847,776 |
| Department of Early Education and Care—contract | 403,758 |
| Department of Early Education and Care—voucher | 83,857 |
| Medicaid—direct payments | 4,048,445 |
| Massachusetts publicly sponsored client offsets | 10,648,531 |
| Private client fees (excluding third-party fees) | 1,372,333 |
| Private client third-party/other offsets | 34,807 |
| Contributions, gifts, legacies, bequests | 8,988 |
| Investment revenue | 701,369 |
| Other revenue | 148,620 |
| Released net assets—program | 4,488 |
| Gain/loss on investments | — |
| Total | <u>\$21,302,972</u> |

According to its 2014 Uniform Financial Statement and Independent Auditor's Report, in January 1990 CCEI entered into a management agreement with a related-party organization, Human Services Management Corporation (HSMC), to provide financial management and development services. CCEI's executive director is also the founder and owner of HSMC. The services to be provided are outlined explicitly in the management agreement between the two parties, and the contract is automatically renewed on January 1 of each year. The management fee charged by HSMC is equal to 5.25% of CCEI's gross budgeted operating revenues; it totaled \$793,681 during the audit period.

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 Criterion Child Enrichment, Inc. (CCEI) for the period July 1, 2013 through June 30, 2014.

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

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

| Objective | Conclusion |
|---|------------|
| 1. Did CCEI properly disclose its related-party transactions in its annual Uniform Financial Statement and Independent Auditor's Report (UFR), and were these expenses reimbursable according to state regulations? | Yes |
| 2. Is the amount reported for management fees in CCEI's UFR accurate and reimbursable according to state regulations? | Yes |
| 3. Is the amount reported for other professional fees (e.g., consultants) in CCEI's UFR accurate and reimbursable according to state regulations? | Yes |
| 4. Are the amounts reported for travel and training expenses in CCEI's UFR accurate and reimbursable according to state regulations? | Yes |

To achieve our audit objectives, we gained an understanding of the internal controls that we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls.

For the areas reviewed related to our objectives, we did not identify any significant deficiencies warranting attention by those responsible for governance. To accomplish our objectives, we performed the following procedures:

- We reviewed various criteria related to our audit objectives, including applicable laws; Operational Services Division (OSD) regulations; the terms and conditions of CCEI's state

contracts; agency policies, procedures, and corporate bylaws; and other applicable authoritative guidance.

- Through interviews with CCEI officials and a review of agency records, we obtained an understanding of the types of programs CCEI operates and performed a risk analysis to identify areas for potential further examination.
- We examined organizational charts and financial records in both electronic and hardcopy forms, including pertinent source documents and the agency's fiscal year 2014 UFR. We performed a reconciliation of amounts in CCEI's fiscal year 2014 UFR that were relevant to our audit objectives to amounts in its general ledger and audited financial statements.
- We determined the reliability of data from CCEI's accounting system (Solomon) by tracing certain electronic transactions to original source documents as well as making relevant inquiries of the management personnel responsible for data reliability. We determined that the data were sufficiently reliable for the purposes of our audit report.
- We reviewed the disclosures of related-party transactions in CCEI's fiscal year 2014 UFR and audited financial statements. We compared them to the organization's records to determine whether the transactions were properly disclosed.
- We reviewed the amount of management fees reported on CCEI's fiscal year 2014 UFR. We verified that all monthly charges and invoices from the management company were properly authorized and recorded. We also verified that the costs charged to CCEI by its related party, Human Services Management Corporation (HSMC), were allowable according to the provisions of Section 1 of Title 808 of the Code of Massachusetts Regulations that govern related-party transactions.
- We reviewed the total amount of management fees incurred by CCEI to determine whether these expenses were within a calculated expected market range. To determine this market range, we obtained from OSD information on management costs incurred by similarly sized human-service agencies that were providing similar services in Massachusetts during the same period and established a range of costs.
- We met with CCEI's financial management team to obtain an understanding of how HSMC's management fee is calculated and charged to CCEI's programs. We then recalculated the fee and charges to determine accuracy.

We selected certain transactions related to our audit objectives for further examination by using a nonstatistical judgmental sample because we believed that this method was a better way to assess the relative materiality of certain costs and to evaluate the relative risk that some of these costs might not comply with existing regulations.

We selected 8 of the highest-paid consultants, among the 39 consultants paid by CCEI during the audit period, for review. We tested these consultants' files to determine whether contracts were on file and properly executed and whether Internal Revenue Service 1099 forms were issued.

For our sample of training expenses, we selected and reviewed 20 (a total of \$9,836) out of 253 transactions that were processed during our audit period.

CCEI incurred staff travel and mileage expenses of \$280,165 during the audit period. Of this amount, \$272,666 was charged to staff mileage. We used a judgmental sample and selected 40 (a total of \$9,944) out of 2,159 transactions for review. We tested these transactions to determine whether they were properly documented and were related to CCEI's business activities. We also used Audit Control Language data analytic software to perform a Benford analysis¹ on staff travel to determine whether any of the transactions were unusual.

1. An analysis based on Benford's Law, examining the validity of a set of numbers based on the frequency with which a particular digit appears as the leading digit or another given digit in a number.

APPENDIX

Criterion Child Enrichment, Inc. Program Descriptions²

Early Intervention

Early Intervention services are designed to meet the developmental needs of each child and the needs of the family related to enhancing the child's development. Criterion utilizes a family centered approach. Services are selected in collaboration with families, using an Individualized Family Service Plan.

Early Intervention Services focus on the family unit, recognizing the crucial influence of the child's daily environment on his or her growth and development. Early Intervention staff, including physical, speech and occupational therapists, developmental educators, nurses and psychologists, work with children and their families in home, center and community based settings. . . .

Child Care

The Child Care center, Rise and Shine Academy, offers fully inclusive child and family-focused programs to infants, toddlers, preschoolers and school age children. In addition to private payment, the programs are supported through contracts with the Commonwealth Department of Early Education and Care ("EEC") and regional Child Care Resource and Referral Agencies which provide for families who are entering the workforce or undertaking continuing education and meet income eligibility guidelines.

The Healthy Families Newborn Home Visiting Program

The Healthy Families Newborn Home Visiting Program ("Healthy Families"), sponsored jointly by the Children's Trust Fund and the Commonwealth Department of Early Education and Care ("EEC"), offers comprehensive, prevention-oriented, home visiting and center-based services to first-time parents under the age of 21. The Healthy Families' staff of supervising social workers and paraprofessional Home Visitors work in collaboration with area medical, educational and mental health providers to identify eligible families during the prenatal period. Positive and persistent outreach to each family results in a large number of eligible families participating in home visits prior to the birth of the child. . . .

Through outreach, coordination, collaboration and provision of direct, individualized services, the Healthy Families Program strives to meet the following goals:

- *Prevention of child abuse and neglect by supporting positive, effective parenting skills and nurturing home environments*
- *Achievement of optimal health, growth and development in infancy and early childhood*
- *Promotion of maximum parental educational attainment and economic self-sufficiency*
- *Prevention of repeat teen pregnancies*

2. Text in this appendix is quoted from a document ("Summary of Criterion Child Enrichment, Inc.") provided by the auditee.

Education, support and guidance offered by Health Families Home Visitor provide the tools that enable young parents to maximize their own personal growth as well as maximize the development of their infant or toddler.

Regional Consultation Program

The Regional Consultation Program ("RCP") is a project designed to build community capacity to better serve children with complex care requirements, multiple disabilities and extensive medical/health needs. The RCP works with area early intervention programs to facilitate the inclusion of these children in their respective local communities.

The RCP provides expert specialized clinical consultation to both providers and families. Additionally, the program provides resources to support families through a variety of activities such as support groups, parent to parent networks, equipment exchange, respite care and resource and referral services.

The RCP is funded by the Commonwealth [Department of Public Health] and EEC.