



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

*Making government work better*

Official Audit Report – Issued December 3, 2015

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## Rehabilitation and Health, Inc.

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





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

*Making government work better*

December 3, 2015

Ms. Maureen Curto, Executive Director  
Rehabilitation and Health, Inc.  
19 Monmouth Street  
East Boston, MA 02128

Dear Ms. Curto:

I am pleased to provide this performance audit of Rehabilitation and Health, 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 Rehabilitation and Health, 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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## LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
CMR	Code of Massachusetts Regulations
DPH	Department of Public Health
OSD	Operational Services Division
RHI	Rehabilitation and Health, Inc.
UFR	Uniform Financial Statement and Independent Auditor's Report

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## EXECUTIVE SUMMARY

Rehabilitation and Health, Inc. (RHI) is a not-for-profit human-service organization providing inpatient mental-health and substance-abuse services in East Boston. 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 RHI for the period July 1, 2012 through June 30, 2014. The purpose of our audit was to review certain aspects of RHI's operations to determine its compliance with applicable laws, regulations, policies, and procedures; the terms and conditions of its state contracts; and its corporate bylaws and other guidance in the areas reviewed.

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

<b>Finding 1</b> <b>Page <a href="#">5</a></b>	RHI charged \$3,450 of inadequately documented expenses to its state contracts as reimbursable expenses.
<b>Recommendations</b> <b>Page <a href="#">5</a></b>	<ol style="list-style-type: none"><li>1. RHI should update its policies and procedures to require that documentation be retained for all expenditures charged to state programs.</li><li>2. RHI should cooperate with the state's Operational Services Division (OSD) to resolve the identified issues regarding nonreimbursable costs and should reimburse the Commonwealth for any such costs that OSD determines must be repaid.</li></ol>
<b>Finding 2</b> <b>Page <a href="#">6</a></b>	RHI's board of directors did not meet as often as required by its bylaws. This could result in insufficient oversight of the organization's operations.
<b>Recommendation</b> <b>Page <a href="#">6</a></b>	Board members and management should be aware of the meeting requirements of RHI's bylaws and ensure that all the requirements are met. If the organization believes that the frequency or nature of board meetings should be changed, it should amend its bylaws to meet its current needs.
<b>Finding 3</b> <b>Page <a href="#">7</a></b>	RHI did not retain all payroll records in accordance with generally accepted accounting principles.
<b>Recommendation</b> <b>Page <a href="#">8</a></b>	RHI should implement a policy of retaining all payroll records, including time cards, for the required seven years.

### Post-Audit Action

After our audit, RHI created a purchase-authorization procedure to provide documentation of direct program expenses and began scanning employee time cards for record-retention purposes.

## **OVERVIEW OF AUDITED ENTITY**

Rehabilitation and Health, Inc. (RHI), located in East Boston, is a not-for-profit human-service agency licensed by the Department of Public Health (DPH) to provide inpatient counseling associated with mental health and substance abuse.

RHI provides various services, including group and individual therapy, substance-abuse treatment, psychopharmacology and medication management, outreach services, and family therapy. Its primary goals are to make therapy accessible for clients, to provide structured services to reduce or eliminate symptoms for people with mental illness, and to eliminate substance abuse in its clients' lives.

In 2013, RHI's total revenue was \$1,318,741, of which \$1,077,673 was received from DPH. In 2014, its total revenue was \$1,392,117, of which \$1,215,069 was received from DPH.

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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 Rehabilitation and Health, Inc. (RHI) during 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. Were all the expenses that RHI charged to the Commonwealth reasonable and allowable according to applicable regulations and the terms and conditions of state contracts?	No; see <b>Finding 1</b>
2. Did RHI's board of directors fulfill its oversight duties in accordance with its bylaws and the Massachusetts Attorney General's Guide for Board Members of Charitable Organizations?	No; see <b>Finding 2</b>
3. Were the amounts that RHI billed to the state consistent with RHI's contracts with the Commonwealth?	Yes
4. Were cost-allocation procedures adequately designed to allow segregation of costs by program?	Yes
5. Did contracts and leases initiated during our audit period comply with applicable state regulations and contract requirements?	Yes
6. Does RHI have adequate internal controls regarding reconciliation and monitoring of accounts?	Yes
7. Were related-party transactions appropriate and disclosed in accordance with applicable regulations promulgated by the state's Operational Services Division (OSD) and with state contract terms?	Yes
8. Were payroll procedures adequate to document amounts charged to state programs?	No; see <b>Finding 3</b>

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. We performed data-

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reliability testing with respect to written records and computer-generated data related to our audit objectives and determined that the data were sufficiently reliable for the purposes of our report.

In addition, we performed the following procedures:

- We reviewed various criteria related to our audit objectives, including applicable laws; OSD regulations; the terms and conditions of RHI's state contracts; agency policies, procedures, and corporate bylaws; and other authoritative guidance.
- We reviewed RHI's Uniform Financial Statements and Independent Auditor's Reports (UFRs) and audited financial statements prepared during our audit period. As part of our review, we reconciled amounts reported by RHI in its fiscal year 2013 and 2014 UFRs to amounts in its general ledger and audited financial statements. We interviewed management and other staff, as well as representatives from the firm that performs the organization's annual independent audit, to gain an understanding of policies and procedures.
- We reviewed the disclosures of related-party transactions in RHI's fiscal year 2013 and 2014 UFRs and compared them to the organization's records to determine whether the transactions were properly disclosed, and we performed testing to determine whether the amounts were reimbursable under Section 1.05(8) of Title 808 of the Code of Massachusetts Regulations (CMR).
- We reviewed all board minutes from our audit period.
- We reviewed the cost-allocation method RHI used to allocate its indirect costs in preparing its UFRs.
- We reviewed current contracts and leases for approvals and reasonableness under 808 CMR 1.05.
- From a population of 1,822 non-payroll expenditures made during our audit period, we randomly selected a nonstatistical sample of 42 expenditures, along with an additional 19 expenditures selected judgmentally, and tested them to determine whether they complied with the requirements of 808 CMR 1.00.
- We reviewed a nonstatistical sample of 6 of the 24 monthly state contract billings from our audit period to ensure that RHI's service records reconciled to its billings.
- We selected a nonstatistical sample of 8 payroll periods for review out of the 52 payroll periods in our audit period; however, detailed payroll records were available for only 1 of the 8 periods selected for review (see Finding 3). We examined detailed supporting documentation for 1 week of payroll and reviewed payroll tax filings in support of annual amounts paid. We also reviewed officers' and managers' compensation from our audit period to determine whether amounts paid were within the range allowed by 808 CMR 1.05.
- We reviewed all bank reconciliations performed during our audit period to determine whether account balances were being monitored.



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## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### **1. Rehabilitation and Health, Inc. charged \$3,450 of inadequately documented expenses to its state contracts.**

Rehabilitation and Health, Inc. (RHI) charged expenses to its state contracts that were inadequately documented. Specifically, RHI could not provide documentation for a total of \$3,450 paid to five vendors during our audit period.

#### **Authoritative Guidance**

According to Section 1.05(26) of Title 808 of the Code of Massachusetts Regulations (CMR), the following are nonreimbursable costs:

*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.*

The terms and conditions of RHI's state contracts (as set forth in the Commonwealth Terms and Conditions for Human and Social Services) require the organization to maintain all records related to expenses it charges against its state contract for at least seven years after the end of the contract.

#### **Reasons for Lack of Documentation**

The organization's policies and procedures during our audit period did not require that supporting documentation be maintained for all expense purchases regardless of nature or amount.

#### **Recommendations**

1. RHI should update its policies and procedures to require that documentation be retained for all expenditures charged to state programs.
2. RHI should cooperate with the state's Operational Services Division (OSD) to resolve the identified issues regarding nonreimbursable costs and should reimburse the Commonwealth for any such costs that OSD determines must be repaid.

#### **Auditee's Response**

*[In] the State Audit Report, \$3,450 appears as undocumented expenses. If we could get more information regarding these itemized expenses we will be more than happy to locate the appropriate receipts. Rehab & Health is a very small agency and we take very seriously the importance of documentation of expenditures not only because it is compliance driven but also for budgetary projections for sound planning for the future of Rehab & Health.*

## **Auditor's Reply**

The requested information was not provided to us throughout our audit period. However, regardless of their size, all human-service providers, such as RHI, that contract with the Commonwealth must establish adequate controls to ensure that they comply with all applicable contractual and regulatory requirements.

### **2. RHI's board of directors did not meet as required by the agency's bylaws.**

During our 24-month audit period, RHI's board of directors met only four times, contrary to the RHI's corporate bylaws. The executive director stated that the board had periodic conference calls during the fiscal year but was unable to provide documentation of the frequency or content of those calls.

Infrequent board meetings could result in a lack of proper oversight of the organization's operations and in board members not being knowledgeable about the entity's activities and therefore not being sufficiently informed to act in the best interest of the organization.

## **Authoritative Guidance**

Section 1 of Article II of RHI's bylaws requires an annual meeting and quarterly board meetings.

## **Reasons for Infrequent Board Meetings**

Current management and board members were unaware of the requirement of a specific number of board meetings. The executive director stated that the board had found periodic conference calls to be sufficient for its current needs.

## **Recommendation**

Board members and management should be aware of the meeting requirements of RHI's bylaws and ensure that all of the requirements are met. If the organization believes that the frequency or nature of board meetings should be changed, it should amend its bylaws to meet its current needs.

## **Auditee's Response**

*The By-Laws were discussed by the Board of Directors of Rehab & Health at the most recent Board Meeting on June 16, 2015, and voted to amend the By-Laws to reflect a minimum of two Board Meetings annually. . . . This is more of a Record Retention issue as Rehab & Health's Board is very active and are contacted regularly, however we do realize the importance of proper oversight and we are committed to maintain on-going communication with the Board of Directors of Rehab & Health.*

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*In addition, the Annual Report was also provided to the Audit Team for their review along with Board Meeting Minutes [dated] June 21, 2012, June 26, 2013, June 25, 2014, Phone Meeting on September 23, 2014 and on January 13, 2015 minutes were taken and also given to the Audit Team for Review however many of the other telephone calls that were on-going to Board Members were not documented because they were either too short of a communication or it was simply to respond to a question that a Board Member may have had.*

### **Auditor's Reply**

We concur with RHI's focus on proper oversight and communication with its board of directors. We continue to recommend that RHI convene board meetings in compliance with its bylaws and that all board meetings be documented.

### **3. RHI did not retain all payroll records in accordance with generally accepted accounting principles.**

RHI was unable to provide time cards for 21 months of our 24-month audit period. RHI employees who are compensated hourly are required to fill out weekly time cards, which are reviewed and approved by their supervisors, but the time cards had been discarded. The audit team was able to substantiate the appropriateness of amounts charged to the state as reimbursable payroll expense through examination of tax records and other audit procedures; however, time cards are a tool that management uses to monitor hours worked by employees. Without maintaining these documents for the required period, RHI lacks important payroll records that document employees' attestations as to the accuracy of the time that was reported and charged, as well as supervisory approval, in case any issues arise with an individual's attendance and/or leave balances.

### **Authoritative Guidance**

According to 808 CMR 1.04(1), "Books and records shall be maintained in accordance with generally accepted accounting principles as set forth by the American Institute of Certified Public Accountants (AICPA)." The AICPA's Document Retention Guide states that payroll records should be maintained for seven years.

In addition, the previously mentioned contractual requirement that RHI maintain records related to expenses for its state contracts applies to records for payroll expenses.

## Reasons for Noncompliance

RHI's executive director indicated that because of space restrictions, and on the advice of RHI's private accounting firm, time cards were discarded after one year.

## Recommendation

RHI should implement a policy of retaining all payroll records, including time cards, for the required seven years.

## Auditee's Response

*Another issue raised . . . was of "record retention concerning missing time cards from July of 2012 through March of 2014" however Rehab & Health did have the Time Cards from April of 2014 through May of 2015 (14 months) for the Audit Team to review and substantiate that we do indeed keep time cards.*

*Rehab & Health does have a system of internal control which has been maintained for many years. The missing Time Cards represent about 33% of all/staff employees which reflect hourly paid employees. [The auditors] were given all ADP and Paychex Payroll Journals and documentation which demonstrated that although we did not have Time Cards the payroll record keeping and documentation for the Audit Period (July 2012 through June 2014) clearly substantiates wages were paid to employees of Rehab & Health.*

## Auditor's Reply

We acknowledge that RHI had time cards available for the most recent 14-month period, and we do not dispute that the wages in question were paid to RHI employees. However, RHI could only provide timecards for 3 months of our 24-month audit period, despite its contractual requirement to retain them. We therefore encourage RHI to revise its record-retention policies to comply fully with this requirement.