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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Broccoli Hall, Inc.
Sudbury, Massachusetts

We have audited the financial statements of Broccoli Hall, Inc. (a Massachusetts nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Broccoli Hall, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Broccoli Hall, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as defined in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified as #2011-01 and #2011-02 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified as #2011-03, #2011-04 and #2011-06 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Broccoli Hall, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is identified as #2011-05 in the accompanying schedule of findings.

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Broccoli Hall, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Broccoli Hall, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, and the Commonwealth of Massachusetts Operational Services Division and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Sullivan & Company PC

Westborough, Massachusetts
November 3, 2011

BROCCOLI HALL, INC.
SCHEDULE OF FINDINGS
JUNE 30, 2011

AUDITOR'S OVERVIEW COMMENT

Our Firm has been working with Broccoli Hall for over 10 years, and we've enjoyed watching the Organization thrive within its niche education program. For many years, the audit process has been efficient and well organized. However, during this most recent fiscal year, the Organization experienced two extenuating circumstances that directly contributed to the below findings. The full-time experienced Business Manager resigned with short notice at the very end of FY 2010. As noted below, the Organization outsourced its business manager position to a part time consultant as a temporary measure, yet the arrangement continued throughout the fiscal year. As a result, compliance with existing policies and procedures was diminished. To further complicate matters, the Organization's founder, Head of School and President experienced a medical emergency which required that she undergo life threatening surgery with only two weeks in which to prepare her family as well as the School. After five weeks of recovery, the Head of School returned to work to resume operations and the search for a new Business Manager. The glitches that we experienced in the FY 2011 engagement are not indicative of our long standing history and experience with Broccoli Hall, and we are confident that management and the board of directors has or will address these matters. As of the report release date, the Organization had a promising candidate for the Business Manager position and a transition plan.

#2011-01 Financial Management Resources

Observation:

During late FY2010 the full-time Business Manager resigned on short notice and an interim, part-time business manager was retained on a consultant basis. During FY2011, the Organization's internal control was weakened due to lack of a full-time, permanent business manager, as evidenced by the following examples:

- Checks were issued without supporting documentation.
- Specifically with respect to credit card payments, many receipts were not available for inspection during the audit.
- Shortcuts were taken with QuickBooks data entry, which led to inaccuracies in the accounting records and additional time and costs during the audit.
- Transactions, including checks, journal entries and bills, were entered and subsequently deleted from QuickBooks, rather than editing the existing transaction.
- Deadlines for payment of payroll taxes were missed, and IRS penalties totaling \$4,500 were assessed.
- \$2,500 was paid for international travel insurance: however, international trips were not planned and did not occur..

Recommendation:

A suitable permanent, full-time, business manager should be hired to fill the position as soon as possible.

Management's Response:

Due to staffing issues, a number of internal control issues became apparent in preparing for the FY 2011 audit. We acknowledge the need for improvement and though we were committed to hiring a full-time

business manager quickly, no appropriate candidate responded to our search. However, when we find the right person, our consultant will commit to a minimum of three days per week to handle the finances through the transition and to train the new Business Manager. Specifically, in response to the matter of international insurance – we purchased insurance for international trips for our students. During the past year, we did not embark on any such trips, and we've approached the insurance agency for a refund.

#2011-02 Check Signing Policy

Observation:

During our risk assessment process, we observed that the Head of School approved her own expense report, prepared and approved the requisition form, and signed the reimbursement check.

Recommendation:

Proper and common controls require that no individual should sign checks payable to themselves. We recommend that a policy be implemented whereby a member of the board of directors review the Head of School's expense reimbursements on a regular basis. A common "best practices" approach is to have the Treasurer review and approve expense reimbursements in excess of \$500 and sign the check.

Management Response:

We have changed the policy so that a co-signer on the account will review and approve the Head of School's expenses, and the Head of School will reciprocate so that neither one signs their own checks in excess of \$1,000.

#2011-03 Personnel Policies

Observation:

The Personnel Policies allow for a wide range of discretion and subjectivity which exposes the Organization to inconsistent treatment among employees. In particular, with respect to the areas of extended leave and sick leave, the Organization does not document its allowances for carryover of, or caps on, unused sick leave and personal time. In addition, procedures for tracking paid time off are not in place.

Recommendation:

The Personnel Policies should be reviewed and further defined to state the amount of time an employee may carry over from one year to the next, define the measurement period (hiring anniversary date, fiscal year or calendar year) and establish a cap on unused sick leave and personal time. Detailed records of paid time off used and available should be maintained for and provided to each employee.

Management Response:

The personnel policies are reviewed and updated annually and provide for sick time guidelines. Tracking of attendance is done through the time sheets. We are adding, however, an Excel-based tracking schedule to be maintained by the Business Manager; faculty will receive a summary report each month documenting time available and time taken for their information. Carry over of sick time for faculty who are here for four years or more is capped at 16 weeks. For faculty who are here less than four years, carry over is capped according to 10 days for each year at Broccoli Hall. After these time periods, short-term

Disability insurance will take over. Exceptions may be made. Unused sick time may not be cashed out and, upon termination, is forfeited.

#2011-04 403(b) Plan Administration

Observation:

During FY2011, the Organization failed to make timely payments of the employee and employer contributions to the 403(b) tax-deferred annuity plan. As of June 30, 2011, Broccoli Hall had failed to timely remit approximately 3 months of payments and was not in compliance with the Department of Labor rules for timely submission of funds to the plan. The payments were made subsequent to the fiscal year end, on July 13, 2011.

Recommendation:

For compliance with DOL regulations, and to avoid fines, management must establish a procedure to ensure that all payments to the 403(b) plan are made on a timely basis.

Management Response:

An electronic reminder has been programmed into the Business Manager's computer that will pop up when the computer is turned on. Additionally, the Head of School is adding this as well as other required payments into the faculty calendar as a cross check. The payment to the 403(b) Plan is now scheduled for the first of every month, along with the rent check.

#2011-05 Personnel Files

Observation:

In our audit field work, we selected personnel files for testing for compliance with the record keeping requirements of 808 CMR 1.04. We noted that in the absence of the former business manager, the personnel files had not been kept up to date. During our two site visits, we were unable to obtain evaluations, CORI forms, resumes and CPR licenses in a sample of files selected for testing.

Recommendation:

We recommend that the Organization establish a procedure to monitor the completeness of the personnel files, and assign that responsibility to a specific individual, and in the absence of that individual or position, to have a backup designee. Monitoring procedures should include a checklist on the outside of each file to document the file review and completeness.

Management Response:

Faculty evaluations were completed on March 21, 2011 and are linked to the first contract offering of the same date. There were completed and will be located or re-done. Only the Business Manager, the Head of School, and the faculty members have access to the personnel files. Faculty members have access to their own files. Due to the circumstances encountered during FY 2011, the files were not checked sufficiently. Faculty receives a file checklist each August at Orientation. Follow-up is the responsibility of each faculty member and the Business Manager. The presence of a full time Business Manager should eliminate the problem.

#2011-06 Credit Card Policy

Observation:

Approximately \$130K of operating expenses were charged to credit cards during FY2011, which accounted for approximately 26% of the operating expenses for the year (excluding personnel and occupancy costs). At least one major credit card is paid automatically and electronically without authorization or evidence of any review of supporting documentation. In addition, during the audit, many of the receipts for the credit card purchases were unavailable for inspection. The accounting for the credit card purchases was inadequate in that the entire monthly statement charge was coded to a temporary account and expenses were subsequently allocated by large lump sum journal entries at year end.

Recommendation:

To provide a better system of controls over the use of credit cards, we recommend that an added approval mechanism be implemented. We recommend that credit card statements and supporting documentation be reviewed by a Board Member at least quarterly. This added measure improves the oversight of credit card charges. Although credit cards make payment for expenses convenient for the School, credit card usage must include additional controls in order to safeguard the assets of the Organization. Furthermore, the School must immediately implement its existing documentation policy that requires documentation and original receipts for every credit card purchase, and that those receipts are attached to the statement, along with documented review and approval prior to payment, and that the expenses are properly coded within the general ledger at the time the costs are incurred.

Management Response:

Automatic payments were set up to avoid late charges; however, we are changing that practice so that a partial automatic payment (enough to cover the minimum required payment) will be made a week after the statement arrives. The Business Manager will work with the Head of School to ensure that all receipts are retained, reviewed and approved before the balance of the payment is made. Subsequently, the credit card statements along with supporting documentation and receipts will be reviewed by the Treasurer on a quarterly basis. Receipts for on-line purchases will be categorized and provided to the Business Manager on the first of each month.