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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 15, 1996

Ms. Jean Somers Miller
Commissioner
Office of Alcoholism and Substance Abuse Services
1450 Western Avenue
Albany, NY 12203-3526

Re: Veritas Therapeutic Community, Inc.
Report 95-R-4

Dear Ms. Miller:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we audited the books and records of Veritas Therapeutic Community, Inc. (Veritas), for the period July 1, 1992 through June 30, 1993. Our audit, related to reimbursements claimed by Veritas under contract C-003815, which was awarded by the New York State Office of Alcoholism and Substance Abuse Services (OASAS) for the period July 1, 1992 through June 30, 1993 (excluding the Young Mothers & Infants program modality). Our audit of contract C-003815 identified certain questionable fringe benefit, maintenance and repairs, and miscellaneous expenses. Accordingly, we expanded the scope of our audit to include an examination of these selected cost categories claimed against Veritas' contract with OASAS for the period July 1, 1991 through June 30, 1992 (contract C-003398).

The objectives of our financial-related audit were to determine whether amounts claimed by Veritas were allowable, adequately documented, and incurred for services funded under the contractual agreements we were auditing. To accomplish these objectives, we reviewed the contractual agreements, Veritas' books and records of receipts and expenditures, internal controls over charges to the contracts, and the level of Veritas' compliance with contractual terms.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of Veritas that are included within our audit scope. Further, these standards require that we review and report on Veritas' internal control structure and its compliance with those laws, rules and regulations that are relevant to Veritas' operations that are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded

in the accounting records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In planning and performing our audit procedures, we considered Veritas' internal control structure. Our consideration was limited to a preliminary review of this structure that would enable us to understand the control environment and the way in which transactions flowed through the systems supporting Veritas' claims. Because we did not intend to rely on the internal control structure in performing our work, our assessment did not extend beyond the preliminary review phase. Instead, we appropriately extended our substantive audit tests.

In conducting our audit, we performed tests of Veritas' compliance with certain terms of the contracts. Our objective in performing these tests was to obtain reasonable assurance about the allowability of amounts Veritas received from OASAS, not to provide an opinion on Veritas' overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Veritas complied in all material respects with the provisions referred to in the preceding paragraph, except as noted in Section B of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that Veritas had not complied, in all material respects, with those provisions.

A. Background and Contract Terms

Veritas, a drug and alcohol abuse treatment provider, was incorporated as a not-for-profit organization in 1973. Veritas' administrative offices and two of its three residential facilities are located in the upper west side of Manhattan (Downstate). The third residential site (Rudd House) is located upstate in Barryville, New York. Veritas has a total staff of approximately 80 employees. An affiliated organization, the Veritas Therapeutic Community Foundation (Foundation), has been established to hold property and to raise private funds to support the Veritas program.

Of the $5.2 million in support and revenues Veritas reported receiving during the fiscal year ended June 30, 1993, OASAS provided $2.4 million in program support and capital improvement grants. Veritas received $1.4 million in capital improvement grants from other government agencies, and $1.4 million in third-party revenues.

Veritas' primary program modality consists of long-term residential drug-free treatment. Clients typically enter the first phase of treatment at Rudd House, where they receive individual and group counseling and other services for a period of 9 to 12 months. Upon successful completion of this phase, clients transfer to Downstate for the re-entry phase. At this point, treatment becomes more individualized, including career counseling, educational services, vocational training, and instruction in other skills needed to re-enter society.

In 1993, Veritas expanded its core program to include a residential program for addicted young mothers and mothers-to-be and their infants under 18 months of age. This modality, known as the Young Mothers and Infants (YMI) program, was added to Veritas' annual OASAS contracts, beginning with C-003815.

Aside from the annual program contracts from OASAS, Veritas also received a capital improvement contract from OASAS (C-003631) for the period April 1, 1990 through March 31, 1993. The contract provided $171,592 to improve the sewage treatment plant at Rudd House. Neither the YMI program portion of contract C-003815 nor the capital improvement contract C-003631 were included in this audit.

B. Results of Audit

As discussed below and detailed in the attached exhibits, we determined that a $53,543 refund is due OASAS ($27,411 against C-003815 and $26,132 against C-003398).

1. Contract C-003815

a. Fringe Benefits

We disallowed $2,913 in excess pension contributions paid by Veritas on behalf of its Executive Director and claimed as fringe benefits. Under IRS rules, the Executive Director qualified as a "highly compensated employee." As such, contributions on his behalf were limited to 180 percent of the lowest contribution rate Veritas offered to its other employees (3 percent), which was 5.4 percent of his salary. Veritas incorrectly contributed 10 percent of his salary. The excess contribution claimed was $2,913. We also disallowed $1,437 in claimed health insurance premiums that were paid on behalf of an administrative employee who had started work during an OASAS-imposed hiring freeze. The Veritas Foundation funded this employee's salary and some fringe benefit expenses until hiring authorization was obtained from OASAS. However, $1,437 in health insurance expenses incurred during the freeze period were incorrectly included in the contract claim.

b. Maintenance and Repairs

We disallowed $14,240 of the amount claimed for maintenance and repairs, representing expenses that were undocumented, unauthorized, or unrelated to the contract period or program.

Veritas had renovation work performed at the Downstate sites. Funding for this project was budgeted as a major repair in contract C-003398. However, Veritas incorrectly claimed $6,060 in renovation expenses as ordinary plumbing and boiler repairs in contract C-003815. OASAS officials told us they had not approved these expenses. Therefore, we disallowed the $6,060.

Veritas also claimed $2,230 as ordinary boiler and plumbing repair expenses that we determined were actually related to architect fees in connection with the major repairs covered in the prior year's contract (C-003398). The $2,230 is unrelated to the 1992-93 contract period, and was disallowed.

Veritas' claims also included $5,950 for sewer system maintenance. These expenses, however, actually involved sewage pumping services in connection with a separate capital renovation contract (C-003631) that Veritas had already fully expended. The OASAS capital project managers were not cognizant of any additional work on the sewage project; nor was the program contract manager aware that sewage facility cost overruns had been charged to this program contract. Therefore, we disallowed the $5,950.

c. Miscellaneous and Supplies Expenses

We disallowed a total of $8,171 in claimed miscellaneous expenses and $650 in claimed expenses for supplies, which we determined were not applicable to either the contract period or program. The miscellaneous expense disallowance included insurance prepayments of $3,636 made in 1992-93 for subsequent periods and for the YMI program modality. It also included $3,500 in membership dues paid to Therapeutic Communities of America (TCA), an association of substance abuse service providers. TCA is a State-registered lobbying organization that lobbies the State Senate and Assembly to secure funds for member programs. We also disallowed claimed miscellaneous expenses of $1,035 and supplies expenses of $650 because they pertained to the YMI modality that had its own expense budget, distinct from the primary residential drug-free modality (and excluded from our audit scope). The specific expense items at issue were newspaper help-wanted ads for YMI staff recruitment, and stationery supplies for a YMI mailing.

2. Contract C-003398

As detailed above, our audit of contract C-003815 identified certain questionable fringe benefit, maintenance and repairs, and miscellaneous expenses. Accordingly, we expanded the scope of our audit to include an examination of these cost categories claimed against Veritas' contract C-003398 with OASAS for the period July 1, 1991 through June 30, 1992.

a. Fringe Benefits

We disallowed excess pension contributions of $2,913 paid and claimed on behalf of Veritas' Executive Director. The same circumstances and regulations described for contract C-003815 applied to this contract. (Veritas complied with the IRS rule in the 1993-94 fiscal year.)

b. Maintenance and Repairs

The budget line item for maintenance and repairs included $88,227 for major repairs to the Downstate ($57,227) and Rudd House ($31,000) sites. After some repair work was performed at Rudd House, Veritas officials determined the repair project was too costly to complete. At that point, Veritas officials explained, the project was abandoned. However, Veritas expended the $18,369 balance, which consisted of budgeted contractor ($16,369) and architect fees ($2,000), on non-contract related items. Veritas officials explained these funds were spent on the Rudd House sewage treatment project, which had been funded through a separate contract (C-003631). The budget for this project had been exhausted. Veritas officials could not document that OASAS was aware and had approved of this use of funds specifically designated for their drug treatment program to fund cost overruns on a capital improvement project. Therefore, we disallowed the $18,369.

Veritas also overstated the amount that an architect charged for other repair projects. We disallowed $4,000 in other architect fees claimed as ordinary carpentry and plumbing expenses, because Veritas lacked documentation to support these claims. (This disallowance is in addition to the unexpended $2,000 in Rudd House architect fees discussed in the prior paragraph.)

c. Miscellaneous Expenses

Veritas claimed $83,614 in miscellaneous expenses; however, according to its books, Veritas incurred such expenses totaling $88,756. We allowed the larger total, less the disallowed expense items totaling $5,992 listed below, resulting in net disallowances of $850 for this expenditure category. The disallowed items are:

- $4,300 in membership dues paid to TCA, a State-registered lobbying organization that lobbies the State Senate and Assembly to secure funds for member programs.

- $1,692 in delinquent State taxes, penalties and interest paid in 1992, dating back to 1986 and 1987. The tax payments did not relate to the contract period, and penalties and interest are not reimbursable expenses.

Recommendation

Obtain a $53,543 refund from Veritas.

We would appreciate receiving your response to the recommendation made in this report within 30 days, indicating any actions planned or taken to implement it.

We also wish to thank the management and staff of Veritas Therapeutic Community, Inc., and OASAS for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

R. H. Attmore

Robert H. Attmore
Deputy Comptroller

cc: Patricia A. Woodworth
James Little

EXHIBIT A

VERITAS THERAPEUTIC COMMUNITY, INC.
CONTRACT C-003815
SUMMARY OF EXPENSES BUDGETED & CLAIMED,
DISALLOWED, AND ALLOWED
JULY 1, 1992 THROUGH JUNE 30, 1993

Category	Budgeted & Claimed [a]	Disallowed	Allowed
Salaries	$1,220,246		$1,220,246
FICA/Fringe Benefits	424,695	$ 4,350 [b]	420,345
Consultants	7,981		7,981
Contractual Service	18,565		18,565
Space	145,293		145,293
Maintenance & Repairs	44,910	14,240 [c]	30,670
Supplies & Materials	64,769	650 [d]	64,119
Equipment	49,730		49,730
Transportation	28,766		28,766
Utilities	97,482		97,482
Food	179,646		179,646
Miscellaneous	79,070	8,171 [e]	70,899
Total Expenses	2,361,153	27,411	2,333,742
Revenues	1,274,365		1,274,365
Net Reimbursable Expenses	$1,086,788	$27,411	1,059,377
State Payments			1,086,788
Refund Due the State			$ 27,411

Notes:

[a] Does not include the YMI program modality.

[b] Represents claimed pension expenses exceeding the allowable IRS maximum ($2,913), and health insurance expenses claimed for an unauthorized employee ($1,437).

[c] Represents unauthorized Downstate repairs ($6,060), claimed ordinary maintenance and repairs ($5,950) not applicable to this contract, and architect fees not related to the contract period ($2,230).

[d] Represents claimed supplies expenses applicable to YMI program modality.

[e] Represents claimed insurance expenses not applicable to the contract period ($3,636), claimed dues ($3,500) not applicable to the contract program, and YMI program advertising expenses ($1,035).

EXHIBIT B

VERITAS THERAPEUTIC COMMUNITY, INC.
CONTRACT C-003398
SUMMARY OF SELECTED EXPENSES
BUDGETED & CLAIMED AND DISALLOWED
JULY 1, 1991 THROUGH JUNE 30, 1992

	Fringe Benefits	Maintenance & Repairs	Miscellaneous	Total
Budgeted & Claimed	$386,847	$125,594	$83,614	$596,055
Audit Disallowances	$ 2,913 [a]	$ 22,369 [b]	$ 850 [c]	$ 26,132

Notes:

[a] Represents claimed pension expenses exceeding the allowable IRS maximum.

[b] Represents claimed contractor ($16,369) and architectural ($2,000) expenses not applicable to the contract program, and architectural fees ($4,000) claimed as ordinary carpentry and plumbing expenses that were not documented by Veritas' books and records.

[c] Represents the difference between the amount claimed ($83,614) and the total miscellaneous expenses ($88,756) reported on Veritas' books, less dues ($4,300) and tax ($1,692) expenses not applicable to the contract program and period.