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STATE COMPTROLLER



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STATE OF NEW YORK  
**OFFICE OF THE STATE  
COMPTROLLER**

April 1, 1999

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

Re: Addiction Research and Treatment  
Corporation, Inc. (ARTC)  
Report 97-R-4

Dear Ms. Miller:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited the books and records of the Addiction Research and Treatment Corporation, Inc. (ARTC), for the period of July 1, 1996 through June 30, 1997. Our audit related to reimbursements claimed by ARTC under Contract C-002133, which had been awarded by the New York State Office of Alcoholism & Substance Abuse Services (OASAS).

The objectives of our financial-related audit were to determine whether costs claimed by ARTC were allowable, had been adequately documented, and had been incurred for services funded under the contractual agreement we were auditing. To accomplish these objectives, we reviewed the contractual agreement, ARTC's books and records of revenues and expenditures, its internal controls over charges to the contract, and the level of its 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 ARTC that are included within our audit scope. Further, these standards require that we review and report on ARTC's internal control structure and its compliance with those laws, rules and regulations that are relevant to ARTC's operations 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 recommendation.

In planning and performing our audit procedures, we considered ARTC's 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 accounting system and other systems supporting ARTC's 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 ARTC's compliance with certain terms of the contract. Our objective in performing these tests was to obtain reasonable assurance about the allowability of amounts ARTC received from OASAS, not to provide an opinion on ARTC's overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, ARTC 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 ARTC had not complied, in all material respects, with those provisions.

#### **A. Background and Contract Terms**

ARTC is a not-for-profit organization founded in 1969 to develop rehabilitation and research programs for the prevention and treatment of chemically dependent individuals. ARTC operates six outpatient methadone treatment clinics in New York City. In addition, ARTC operates drug-free treatment programs, as well as AIDS-related services. In the fiscal year ended December 31, 1997, ARTC reported receiving total revenues of \$17.5 million, including \$11.8 million in Medicaid reimbursements, \$2.9 million from OASAS, \$2 million from other contracts and grants, and the remainder (\$.8 million) from miscellaneous sources including patient fees and vending machine revenue. ARTC has a staff of almost 300 employees.

OASAS Contract C-002133 funded the operation of the six outpatient Methadone (drug) treatment clinics and provided for two forms of treatment in 1996-97: the Methadone Maintenance Treatment Program (MMTP) and the Drug-Free Program. The scope of this audit focused on the MMTP. In the period from July 1, 1996 through June 30, 1997, OASAS paid ARTC \$1,808,354 under Contract C-002133 for the MMTP. This represented the excess of program expenses over third-party revenues, primarily Medicaid. The Contract budget was structured by line-item expenditure categories, including salaries and fringe benefits, as well as other-than-personal services (OTPS) expenses, such as consultant services and miscellaneous

expenses.

**B. Results of Audit**

ARTC budgeted and claimed expenses for the MMTP under Contract C-002133 for the period July 1, 1996 through June 30, 1997, as follows:

	<u>Budgeted</u>	<u>Claimed</u>
Total Expenses	\$ 13,459,804	\$ 12,378,636
Total Revenues	<u>11,651,450</u>	<u>10,570,282</u>
Net OASAS Reimbursable	\$ <u>1,808,354</u>	\$ <u>1,808,354</u>

We determined that OASAS is due a refund of \$15,621 on expenses claimed for the MMTP in 1996-97. As shown in Exhibit A, we disallowed a total of \$15,621 in claimed Contractual Services expenses relating to fees paid to a legal firm because we determined that these charges were non-program related expenses not authorized by the Contract.

ARTC claimed total legal fees of \$52,266 relating to the MMTP program, all paid to the same firm. The bills relating to these charges were classified by the subject of the services performed. One of these categories pertained to a matter involving Long Island College Hospital (LICH). According to ARTC officials, LICH was in the process of divesting itself of its methadone maintenance clinics. ARTC sought to take over these facilities, but they were secured by another organization. Legal expenses, which totaled \$15,621, were incurred in this takeover effort.

The LICH-related costs were a one-time investment in potential future business. These costs were not incurred as an activity relating to an existing Contract-funded program, nor were they general and administrative expenses incurred in the ordinary course of business. Furthermore, the costs were never approved by OASAS. OASAS officials agreed that these costs should be disallowed.

**Recommendation**

*Obtain a \$15,621 refund from ARTC.*

Major contributors to this report include Aurora Caamano, Cindi Frieder, Charles Hammarberg, Jeremy Mack, Mike Miller and Barry Mordowitz.

We would appreciate receiving your written response to the report findings and recommendation within 30 days, indicating any actions planned or taken to implement it. We wish to thank the management and staff of ARTC and the Office of Alcoholism and Substance Abuse Services for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Challice  
Audit Director

cc: Charles Conaway  
Neil C. Grogin  
Beny J. Primm

**EXHIBIT A**

**ADDICTION RESEARCH AND TREATMENT CORPORATION  
CONTRACT C-002133  
METHADONE MAINTENANCE TREATMENT PROGRAM  
SUMMARY OF EXPENSES BUDGETED, CLAIMED, DISALLOWED AND  
ALLOWED  
JULY 1, 1996 THROUGH JUNE 30, 1997**

<u>Category</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowed</u>
Salaries	\$7,724,491	\$7,255,604		\$7,255,604
Fringe Benefits	1,931,123	1,671,837		1,671,837
Consultants	9,450	9,450		9,450
Contractual Services	530,628	529,027	\$15,621 (a)	513,406
Space	241,800	238,860		238,860
Maintenance/Repairs	73,875	35,511		35,511
Supplies/Materials	598,681	513,264		513,264
Equipment	230,933	117,921		117,921
Transportation	68,624	33,033		33,033
Utilities	416,023	398,021		398,021
Miscellaneous	<u>1,634,176</u>	<u>1,576,108</u>	_____	<u>1,576,108</u>
Total Expenses	\$13,459,804	\$12,378,636	\$15,621	\$12,363,015
Less: Revenues	<u>11,651,450</u>	<u>10,570,282</u>	_____	<u>10,570,282</u>
Net Reimbursable	<u>\$1,808,354</u>	<u>\$1,808,354</u>	<u>\$15,621</u>	\$1,792,733
State Payments				<u>1,808,354</u>
Refund Due State				<u>\$15,621</u>

Note:

(a) Represents claimed legal expenses not related to the Contract and not approved by OASAS.