

H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

May 5, 1999

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

Re: Elmcors Youth and Adult Activities, Inc.
Report 98-R-3

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 Elmcors Youth and Adult Activities, Inc. (Elmcors), for the period July 1, 1996 through June 30, 1997. Our audit related to reimbursements claimed by Elmcors under Contract C-002166, 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 Elmcors were allowable, adequately documented, and incurred for services funded under the contractual agreement we audited. To accomplish these objectives, we reviewed the contractual agreement, Elmcors'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 Elmcors that are included within our audit scope. Further, these standards require that we review and report on Elmcors's internal control structure and its compliance with those laws, rules and regulations that are relevant to Elmcors'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 recommendations.

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

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

A. Background

Elmcors established in 1966, is a multi-funded, not-for-profit service agency located in the East Elmhurst/Corona section of Queens, New York. Its primary purposes are to promote the physical fitness, educational well-being, and social life of youth through various programs and activities. Organizationally, Elmcors Executive Director reports to a 13-member Board of Directors (Board). Elmcors has a staff of 70 employees, including 25 in the drug rehabilitation program.

Elmcors operates a Drug Rehabilitation program which is funded by OASAS through Contracts C-001667 (July 1, 1993 through June 30, 1996) and C-002166 (July 1, 1996 through June 30, 1999). The Program operates four modalities: **Residential Care**, where clients live full-time in Elmcors residence facility, forming a therapeutic community; **Homeless Services**, a similar program geared to the special needs of the homeless client; **Day Treatment**, for clients able to live on their own; and **Preventive Services**, which includes preventive education and community outreach.

B. Results of Audit

Elmcors claimed expenses totaled \$965,909 for the period July 1, 1996 to June 30, 1997, which was \$47,080 less than the budgeted and contract amount of \$1,012,989. As detailed in Exhibit A, we determined that OASAS is due a net refund of \$64,583 for 1996-97. Elmcors incorrectly claimed payroll expenses of \$22,379 for one employee who did not work on this contract, and we disallowed \$10,513 for expenses which were not documented. In addition, over the course of the contract period, OASAS remitted to Elmcors excess funds of \$31,691.

Also, our audit disclosed significant amounts of funds being loaned from OASAS programs to other government programs. As of June 30, 1998, \$291,001 of OASAS funds has not been reimbursed to OASAS.

In addition, OASAS funds are distributed in accordance with an expected level of service to be provided by the contractor. For the past two years, the actual number of clients served in certain OASAS programs were less than the expected number of clients to be served.

1. **Personal Services**

The contract requires Elmcors to report actual expenses incurred for the contract period. Elmcors employs six bookkeepers who are each assigned responsibility for one of the various programs. We reviewed Elmcors's payroll reports and found that it claimed \$22,379 for one bookkeeper who was working on another contract.

2. **Other-Than-Personal Services**

The contract requires Elmcors to document all expenses claimed through an invoice, voucher, or canceled checks. We reviewed expenses claimed and found that Elmcors did not have the required documentation to substantiate \$10,513 in claimed reimbursement.

3. **Inter-Program Loans**

Elmcors maintains 18 Inter-Program Loan Accounts. According to Elmcors's financial records, it has made inter-program loans which are not permitted under each of its contracts. Elmcors claimed that this practice was stopped but then resumed because of funding delays that made it necessary to borrow from other programs or from banks to meet payroll, and other financial obligations.

Elmcors continues to use OASAS funds to loan other City- and State-funded programs. According to the Fiscal Director at Elmcors, the inter-program loans are used to assist the various programs in meeting their monthly expenses in the event that funds from their respective contracts are delayed. However, we found that in the process of transferring funds among these programs, the modalities funded by the contract from OASAS were not reimbursed a total of \$291,001, for the last two fiscal years, as follows:

Modality	1996/97	1997/98	Due State
Residential Care	\$106,867	\$63,250	\$170,117
Homeless Services	15,580	20,049	35,629
Preventive Services	37,993	(3,900)	34,093
Day Treatment	30,312	20,850	51,162
Total	\$190,752	\$100,249	\$291,001

3. **Program Compliance**

OASAS can reduce the funding of the Contractor and any subcontractor for underutilization or performance deficiencies in connection with the program. While the contract for the fiscal year that ended June 30, 1997 did not stipulate the number of clients to be served by its funded programs, OASAS's contract and budget summary for the period from July 1, 1997 to June 30, 1998, indicates that it will provide the following levels of service on a monthly basis: 95 Day Treatment patients, 36 Residential Care patients, and 15 Homeless Services patients. However, based on Elmcors own level of service, two modalities did not meet the contracted capacity for fiscal year 1998; Day Treatment had an average of 61 clients per month or 65 percent of capacity, and Residential Care had an average of 31 clients per month or 86 percent of capacity.

4. **Internal Control**

Our audit disclosed a lack of separation of duties in payroll and other bookkeeping operations, which presents risks to Elmcors. For example, there is no separation of duties between the bookkeeping function and check disbursements, both of which are handled by one individual. In addition, Elmcors payroll unit is staffed by one individual who handles both time and attendance for all of the programs, and the processing of payroll checks.

Elmcors has a network of personal computers, which are not effectively utilized. The present bookkeeping process is entirely manual and involves numerous ledgers and journals. In addition, the accounting data are fragmented, whereby costs are subdivided to match third party revenues. This process requires significant effort to record and review. Computerizing these accounting records would significantly enhance the accounting and reporting processes.

Recommendations

To the Office of Alcoholism and Substance Abuse Services:

1. *Recover \$64,583 from Elmcors.*
2. *Make an appropriate determination regarding the agreed-upon 1998 contracted capacity vis-a-vis the actual number of clients served.*
3. *Instruct Elmcors to discontinue the practice of making inter-program loans and to return \$291,001 of borrowed funds to the OASAS program.*

To Elmcors Youth and Adult Activities, Inc.

1. *Separate the duties in the bookkeeping and payroll units.*
2. *Consider computerizing the accounting records.*

Major contributors to this report include Charles Hammerberg, Aaron Fruchter, Jagdeshwar Mohunlall, Erica Mezich, and Jennifer Murrell.

We would appreciate receiving your response to the report findings and recommendations within 30 days, indicating any actions planned or taken to implement them. We wish to thank the management and staff of Elmcot Youth and Adult Activities, Inc., and the Office of Alcoholism and Substance Abuse Services for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

A handwritten signature in cursive script that reads "William P. Challice".

William P. Challice
Audit Director

cc: Charles Conaway
Lawrence Miller
Neil C. Grogin

EXHIBIT A

ELMCOR YOUTH AND ADULT ACTIVITIES, INC.
 CONTRACT C-002166
 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>
Personnel	\$796,683	\$777,451	\$22,379 (a)	\$755,072
Contractual Services	27,864	19,811	745 (b)	19,066
Utilities	98,781	80,344	2,134 (b)	78,210
Maintenance and Repairs	19,700	19,700	424 (b)	19,276
Supplies and Materials	31,788	31,788	2,104 (b)	29,684
Transportation	3,050	3,050	-0-	3,050
Miscellaneous	<u>35,123</u>	<u>33,765</u>	<u>5,106</u> (b)	<u>28,659</u>
Total Expenses	<u>\$1,012,989</u>	<u>\$965,909</u>	<u>\$32,892</u>	\$933,017
State Payments				<u>997,600</u>
Refund Due State				<u>\$64,583</u>

Notes:

- (a) Represents claimed salaries for one employee who did not work on this contract.
 (b) Represents claimed expenses that were not documented.