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OFFICE OF THE STATE
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October 9, 1998

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

Re: National Development and
Research Institutes, Inc.
Report 97-R-3

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 the National Development and Research Institutes, Inc. (NDRI), for the period of July 1, 1995 through June 30, 1996. Our audit related to reimbursements claimed by NDRI under contract C-001677, awarded by the New York State Office of Alcoholism and Substance Abuse Services (OASAS).

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

An audit also includes assessing the 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 NDRI'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 systems supporting NDRI'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 NDRI's compliance with certain terms of the contract. Our objective in performing these tests was to obtain reasonable assurance about the allowability of amounts NDRI received from OASAS, not to provide an opinion on NDRI's overall compliance with such provisions.

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

A. Background and Contract Terms

NDRI was established in 1967 as a nonprofit organization to advance and utilize scientific knowledge toward innovative solutions for substance abuse and mental health problems, HIV/AIDS, and related medical and social issues of particular concern to high-risk populations. NDRI's administrative headquarters is in Manhattan, and it operates programs at various sites throughout New York City, including AIDS outreach/prevention programs directed to drug users at community-based storefronts. It employs a staff of approximately 280.

As currently organized, NDRI and its affiliates NDRI-State and NDRI-USA are consolidated in the entity called the NDRI Group. NDRI-State, created in December 1989, derives its funds from contracts with New York State. It receives approximately \$2 million annually from OASAS to implement an AIDS Outreach and Prevention (AOP) program in accordance with a contract work plan. The AOP program provides street-based outreach, education, and HIV/AIDS prevention interventions to injecting substance abusers.

The contract budget for C-001677 was structured according to line-item categories of expenditures, including salaries and fringe benefits, and expenses for other-than-personal services such as rent. According to NDRI's contract with OASAS, amendments to the budget require OASAS' approval.

B. Results of Audit

NDRI claimed expenditures totaling \$1,873,013 under contract C-001677. As discussed below and detailed in Exhibit A, we determined that OASAS is due a refund of \$13,639, primarily because NDRI claimed expenditures that either were not supported adequately, were claimed twice, or were not related to the contract.

1. Rent Expenses

NDRI claimed \$131,184 for rent expense. We reviewed NDRI's rent invoices and canceled checks and found that the actual rent expense totaled \$124,933. As a result, we disallowed \$6,251 of unsupported claimed expenses. NDRI officials responded that the overclaim in rent expense was caused by a clerical error.

2. Salaries and Fringe Benefits

Salaries and fringe benefits accounted for 63 percent of the total operating costs of the contract. NDRI accrues funds, as a component of claimed fringe benefits, to pay employees for their accumulated vacation leave when they leave their jobs at NDRI. The accrued amounts are maintained in an accrued vacation pay account. However, we found two instances in which NDRI had claimed salary expense, totaling \$3,206, for accumulated vacation leave payments to separating employees, rather than charging the accrued vacation pay account. We disallowed the \$3,206, as well as \$1,058 claimed as related fringe benefits, a total of \$4,264. We also disallowed \$137 of claimed salary and \$45 of related fringe benefits that NDRI paid incorrectly to an employee for two days that the employee did not work.

3. Administrative Overhead and Other Expenses

We also disallowed \$669 in other claimed expenditures including: \$273 in duplicate telephone expense claims, \$271 for claimed telephone expenses that were not related to the contract program or not supported by invoices, and \$125 in claimed electricity expenses for a location that was not related to the contract program.

The contract budget included an expense category for administrative overhead. A memorandum of understanding between OASAS and NDRI set the overhead rate at 20 percent of program expenses. As a result of the previously-mentioned disallowances in rent (\$6,251), salaries and fringe benefits (\$4,446), and other expenditures (\$669), we disallowed \$2,273 (20 percent of \$11,366) in administrative overhead.

Recommendation

Obtain a \$13,639 refund from NDRI.

Major contributors to this report were Kenneth Spitzer, Debra Wolrich, Lesley Padmore, Joseph Giaimo, and Claude Volcy.

We would appreciate receiving your response to the report recommendation within 30 days, indicating any actions planned or taken to implement it. We wish to thank the management and staff of the National Development and Research Institutes, 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,

Frank J. Houston
Audit Director

cc: Robert L. King
Michael Galub

EXHIBIT A

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.
 CONTRACT C-001677
 SUMMARY OF EXPENSES BUDGETED, CLAIMED, DISALLOWED, AND ALLOWED
 JULY 1, 1995 THROUGH JUNE 30, 1996

<u>Category</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowed</u>
Salaries	\$ 915,206	\$ 876,415	\$3,343 [a]	\$ 873,072
Fringe Benefits	302,018	294,726	1,103 [b]	293,623
Contractual Services	32,600	25,645		25,645
Space	131,000	131,184	6,251 [c]	124,933
Maintenance & Repairs	16,600	14,026		14,026
Supplies & Materials	150,383	128,080		128,080
Transportation	20,160	18,756		18,756
Utilities	39,206	26,677	669 [c]	26,008
Miscellaneous	45,500	45,335		45,335
Administrative Overhead	<u>330,535</u>	<u>312,169</u>	<u>2,273</u> [d]	<u>309,896</u>
Total Expenses	<u>\$1,983,208</u>	<u>\$1,873,013</u>	<u>\$13,639</u>	\$1,859,374
State Payments				<u>1,903,653</u>
Excess Payments				\$44,279
Applied by OASAS to NDRI's 1996-97 Contract				<u>30,640</u>
Refund Due the State				\$ <u>13,639</u>

Notes:

- [a] Represents claimed salaries for payments to separating employees (\$3,206) that should have been paid from NDRI's accrued vacation payment account, and \$137 claimed for unearned salaries.
- [b] Represents claimed fringe benefits related to disallowed salaries in [a].
- [c] Represents claimed expenditures that either were not supported adequately, claimed twice, or not related to the contract program.
- [d] Represents claimed administrative overhead expenses related to disallowed expenses.