

H. CARL McCALL
STATE COMPTROLLER



STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

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

April 16, 1999

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

Re: Educational Alliance, Inc.
Report 97-R-7

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 Educational Alliance, Inc. (Alliance) for the period July 1, 1993 through June 30, 1996. Our audit related to reimbursements claimed by the Alliance under Contract C-001730, which was 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 the Alliance were allowable, adequately documented, and incurred for goods and services funded under the contractual agreements we were auditing. To accomplish these objectives, we reviewed the contractual agreements, the Alliance's books and records of receipts and expenditures, internal controls over charges to contracts, and the level of the Alliance's 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 the Alliance that are included within our audit scope. Further, these standards require that we review and report on the Alliance's internal control structure and its compliance with those laws, rules and regulations that are relevant to its 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 the Alliance's internal control structure. Our consideration was limited to a preliminary review of the Alliance's internal control structure that would enable us to understand the control environment and how transactions flowed through the accounting system and other systems supporting the claims for reimbursement. 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 the Alliance's compliance with the contract terms. Our objective in performing these tests was to obtain reasonable assurance about the allowableness of amounts the Alliance received from OASAS, not to provide an opinion on the Alliance's overall compliance with such provisions.

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

A. Background and Contract Terms

The Alliance is a 104-year old not-for-profit organization and employs approximately 450 employees. It is a multifaceted social service agency that provides services to a diverse community. The Alliance's services include settlement house activities, child care services, senior adult services, mental health programs, and drug free programs. The drug free programs include Residential Treatment, Day Services, Outpatient Services, and Community Services/Hotline.

The Residential Treatment program provides substance abuse clients with treatment that facilitates sustainable recovery in a brief period of time. The program utilizes the twelve-step program and other community services to aid in relapse prevention. Educational and vocational counselors work as a team with counselors, social workers, and, when necessary, psychiatrists and psychologists, to prepare clients for prompt and successful re-entry into the workforce. The Residential Treatment program employs about 51 people.

Through its contract with the Alliance, OASAS provided funding for the three-year period July 1, 1993 through June 30, 1996 in the amount of \$7,292,879. We audited the Residential Treatment portion of the drug free program, which has an annual budget of \$1.4 million. We also reviewed selected aspects of the other OASAS drug free programs covered under Contract C-001730 for the three fiscal years.

The contract budgets were structured according to line-item categories for expenditures, including salaries, fringe benefits, and other-than-personal services costs such as contractual services. The goals and objectives of the Residential Treatment program are outlined in a work plan that was approved by OASAS. Revisions or modifications of the approved program are not allowed without the prior approval of OASAS.

B. Results of Audit

The Alliance claimed expenses under Contract C-001730, as follows:

<u>Period</u>	<u>Budgeted</u>	<u>Claimed</u>
7/1/95- 6/30/96	\$2,701,951	\$2,649,911
7/1/94- 6/30/95	\$2,831,951	\$2,762,201
7/1/93- 6/30/94	\$1,758,977	\$1,758,977

As detailed in Exhibits A, B and C, we determined that OASAS is due a total refund of \$420,602, consisting of \$239,598 for 1995-96, \$165,189 for 1994-95, and \$15,815 for 1993-94.

Subsequent to our field work, we met with Alliance officials and verified that \$67,513 in salary expense applicable to the OASAS contract had not been previously claimed. However, since this expense exceeds the contract dollar amount limitation, it did not affect the results of our audit. Alliance officials need to resolve this issue with OASAS.

1. Personal Service Expenditures

Salaries and fringe benefits accounted for over 67 percent of the total operating costs of the OASAS-funded program in the 1995-96 contract year. We reviewed the Alliance's claims for salary expense for the Residential Treatment program. We found several instances where the Alliance over claimed expenses, resulting in a disallowance of \$96,673. The disallowance includes \$58,184 of the annual increase in vacation accruals, \$28,017 of over claimed personal service-related expenses, and \$10,472 of claimed salaries in excess of actual salaries. The vacation accruals represent vacation time earned, but not yet used. As such, no payments related to this time were made during the contract period. Paying for the time when accrued would result in a double billing, once when accrued, and again when the time was actually used.

We also disallowed \$23,490 of claimed pension expense for 1995-96. The Alliance's pension cost for all of its employees are covered by yearly grants from the United Jewish Appeal-Federation of New York, a philanthropic organization. Similarly, in contract years 1994-95 and 1993-94, we disallowed \$19,895 and \$15,815 of pension expense, respectively.

As a result, for the three contract years under audit, we disallowed a total of \$155,874 in claimed salaries and fringe benefits for the Residential Treatment program.

In contract year 1995-96, we disallowed \$119,435 of excess claimed expenses for the Outpatient Services, Day Services, Homeless and Community /Hotline Services programs. The Alliance claimed the budgeted amounts in every expense category even though the actual expense incurred in some categories were lower than the budgeted amount. For example, the total actual salary expenses was \$759,431, but the Alliance budgeted and claimed \$854,950, a difference of \$95,519. (The remaining \$23,916 we disallowed is the net result of differences between the actual, and budgeted and claimed amounts in the other expense categories.)

The Deputy Executive Director of the Alliance disagrees with our disallowance and believes that no adjustment should be made to claimed salaries and fringe benefits. He maintains that we omitted certain adjustments made to the Alliance's financial statements; excluded salaries of 20 employees working on OASAS programs; and incorrectly disallowed fringe benefit costs which are paid by a third party that does not intend its grants to be used for State-funded programs.

We made our determination of salary expense based on the amounts recorded in the Alliance's general ledger, including any adjustments. In addition, the salaries disallowed represent amounts claimed in excess of actual expenditures. For example, one full-time employee's actual salary was \$34,000, but the Alliance budgeted and claimed, in both the Residential and Homeless programs, a total of \$69,036 in salary expense. Regarding the exclusion of 20 employees, our disallowance only omits 8 employees for whom there is no documentation that their salaries should have been allocated to OASAS programs.

We disallowed certain fringe benefits since the Alliance's pension cost for all of its employees are covered by yearly grants from the United Jewish Appeal-Federation of Philanthropies. In accordance with the OASAS contract, the Alliance is required to reduce the total costs incurred in the performance of the program by any revenues received.

2. Third-Party Revenues

The contract requires that the Alliance first apply any revenues received toward the total costs incurred in the performance of the program. The balance of the total costs remaining, subject to the budget, will then be reimbursed by OASAS. For the 1994-95 contract year, we disallowed \$145,294 of excess claimed expenses. The over claim resulted because the Alliance did not offset costs with all third-party revenues earned during the contract period.

The Alliance's Deputy Executive Director explained that the third-party revenues should be applied to the 1993 and 1996 deficit of \$118,373 and \$220,879, respectively. We do not agree since during the years when the deficits occurred, OASAS reimbursed the Alliance for all expenses incurred up to the budgeted amount for each of these contract years, as stipulated in the contract.

3. Record Keeping

The contract requires that the Alliance submit claims to OASAS for payment of contract funds for costs incurred pursuant to the approved budget. The Alliance does not prepare supporting, summary worksheets which reconcile the general ledger amounts to the claim amount. An OASAS Fiscal Review Report/Corrective Action Plan, issued November 22, 1993, recommended that the Alliance reconcile the general ledger amount to the claim amounts. The Alliance continues to claim the budgeted contract amount, regardless of the actual expenditures incurred. We also reviewed a sample of employee payroll time records. Of the 50 time sheets we reviewed, three were missing and none indicated the amount of time employees worked on specific programs.

Alliance officials advised us that they have hired a fiscal employee, scheduled to start on June 25, 1998, to exclusively handle all contract reconciliations and claims.

Recommendations

1. *Obtain a \$420,602 refund from the Alliance.*
2. *Require the Alliance to prepare summary worksheets that reconcile the general ledger amounts to the claimed amounts.*
3. *Require the Alliance to indicate on time records the amount of time employees work on specific programs.*

Major contributors to this report were Kenneth Spitzer, Aaron Fruchter, Gennaro John Petillo, Jeremy Mack, Christopher J. Marcinek and Bebe Hussain Belkin.

We would appreciate receiving your response to the report recommendations within 30 days, indicating any actions planned or taken to implement them.

We wish to thank the management and staff of the Educational Alliance, Inc. and the Office of Alcoholism and Substance Abuse Services for the courtesies and cooperation extended to our staff during this audit.

Very truly yours,

William P. Challice
Audit Director

cc: Charles Conaway
Neil C. Grogin
John Hoover

**THE EDUCATIONAL ALLIANCE, INC.
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>
Total Expenses	\$2,701,951	\$2,649,911	\$239,598 (a)	\$2,410,313
State Payments				<u>2,649,911</u>
Refund Due the State				\$ <u>239,598</u>

Note:

- (a) Represents \$96,673 of over claimed personal service expenditures; \$119,435 for claimed expenses in excess of actual expenses incurred; and \$23,490 for pension expense paid by a third party.

**THE EDUCATIONAL ALLIANCE, INC.
SUMMARY OF EXPENSES BUDGETED, CLAIMED, DISALLOWED, AND ALLOWED
JULY 1, 1994 THROUGH JUNE 30, 1995**

<u>Category</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowed</u>
Total Expenses	\$2,831,951	\$2,762,201	\$165,189 (a)	\$2,597,012
State Payments				<u>2,762,201</u>
Refund Due the State				\$ <u>165,189</u>

Note:

- (a) Represents \$145,294 of expenses not offset by the receipt of third-party revenues; and \$19,895 of pension expense paid by a third party.

**THE EDUCATIONAL ALLIANCE, INC.
SUMMARY OF EXPENSES BUDGETED, CLAIMED, DISALLOWED, AND ALLOWED
JULY 1, 1993 THROUGH JUNE 30, 1994**

<u>Category</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowed</u>
Total Expenses	\$1,758,977	\$1,758,977	\$15,815 (a)	\$1,743,162
State Payments				<u>1,758,977</u>
Refund Due the State				\$ <u>15,815</u>

Note:

(a) Represents pension expense paid by a third party.