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STATE COMPTROLLER



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

September 24, 1999

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

Re: Damon House New York, Inc.
Report 98-R-9

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 Damon House New York, Inc. (Damon), for the period July 1, 1996 through June 30, 1997. Our audit related to reimbursements claimed by Damon under Contract C-002159, which was awarded by New York State Office of Alcoholism & Substance Abuse Services (OASAS).

The objectives of our financial-related audit were to determine whether costs claimed by Damon were allowable, adequately documented, and incurred for services funded under the contractual agreement we were auditing. To accomplish these objectives, we reviewed the contractual agreement, Damon's books and records of revenues and expenditures, its internal controls over charges to the contract, and the level of its compliance with its 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 Damon that are included within our audit scope. Further, these standards require that we review and report on Damon's internal control structure and its compliance with those laws, rules and regulations that are relevant to Damon'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 Damon'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 Damon'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 Damon's compliance with certain provisions of the contract. Our objective in performing these tests was to obtain reasonable assurance about the allowability of the amounts Damon received from OASAS, not to provide an opinion on Damon's overall compliance with such contract provisions.

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

A. Background

Damon House New York, Inc., established in 1985, is a multi-funded, not-for-profit, community-based service agency, with an administrative office at 175 Remsen Street in Brooklyn. Currently, Damon operates centers in the Bushwick and Williamsburg sections of Brooklyn, New York that offer drug-free residential substance abuse treatment services to clients age 18 years and older. Damon's primary purposes are to rehabilitate persons suffering from addiction to drugs by providing counseling, vocational and education services.

Damon's Executive Director reports to a five-member Board of Directors (Board). Damon has a staff of 30 employees including: 6 in its administrative office, 13 in Bushwick, and 11 in Williamsburg

The programs at Bushwick and Williamsburg are funded by the Office of Alcoholism and Substance Abuse Services through Contract C-002159 (July 1, 1996 through June 30, 1999). The U.S. Department of Housing and Urban Development funds the Bushwick center substance abuse service program. Damon also receives funds from the New York City Human Resources Administration. The funds from these "third party" agencies are used first. State funds are used to pay the remainder of program expenses.

B. Results of Audit

Damon claimed total expenses of \$911,058 for the period July 1, 1996 to June 30, 1997. We identified net disallowances of \$90,122 resulting in \$820,936 in allowable claimed expenses.

Since OASAS paid Damon \$912,956, and subsequently recovered \$1,898, it is due a refund of \$90,122 for 1996-97. Our disallowances are as follows and are detailed in Exhibit A.

1. Personal Service Costs

Damon claimed a total of \$1,100,338 in salaries. It calculated this figure by subtracting from total gross salaries the amount of applicable employee fringe benefits, which were claimed separately. However, we found that a total of \$19,469 in fringe benefits were not subtracted from claimed salaries resulting in a duplicate payment since it was also claimed under the category of fringe benefits.

2. Other-than-Personal Service Costs

Damon claimed certain expenses that were not supported by appropriate documentation, exceeded actual expenditures, or were unrelated to the audited contract. Consequently, we disallowed \$59,917 for contractual services; \$1,506 for maintenance and repairs; \$7,283 for equipment; \$1,301 for transportation; and \$6,709 for miscellaneous expenses such as dues, conventions, subscriptions, etc. We also noted that utility costs were under claimed by a net total of \$413 and food costs were under claimed by a net total of \$5,650. Damon stated that it has submitted an amended final budget and claim report for \$59,917. If OASIS approves the budget modification, it will reduce the refund accordingly.

Recommendation

Recover \$90,122 for payments which exceeded allowable expenses.

Major contributors to this report include Charles Hammerberg, Barry Mordowitz, Jagdishwar Mohunlall, Erica Mezich, and Jeremy Mack.

We would appreciate receiving your response to the report findings and recommendation within 30 days, indicating any actions planned or taken to implement the recommendation. We wish to thank the management and staff of Damon House New York, Inc. and the Division of Substance Abuse Services for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Chalice
Audit Director

cc: Neil C. Grogin
James P. Murphy
Charles Conaway

EXHIBIT A

DAMON HOUSE NEW YORK INC.
SUMMARY OF EXPENSES BUDGETED, CLAIMED, DISALLOWED, AND ALLOWED
OASAS CONTRACT C-002159
JULY 1,1996 THROUGH JUNE 30, 1997

Category	Budgeted	Claimed	Disallowed		Allowed
Salaries	\$1,134,162	\$1,100,338	\$19,469	(a)	\$1,080,869
Fringe Benefits	373,124	362,111	0		362,111
Consultants	36,163	36,163	0		36,163
Contractual Services	167,447	146,961	59,917	(b)	87,044
Space	151,210	135,783	0		135,783
Maintenance and Repairs	118,749	100,255	1,506	(b)	98,749
Equipment	20,836	20,836	7,283	(d)	13,553
Supplies & Materials	49,751	49,751	0		49,751
Transportation	11,451	8,560	1,301	(c,d)	7,259
Utilities	143,955	137,930	(413)	(c,e)	138,343
Food	187,965	182,267	(5,650)	(e)	187,917
Miscellaneous	<u>30,635</u>	<u>30,635</u>	<u>6,709</u>	(c,d)	<u>23,926</u>
Total expenses	<u>\$2,425,448</u>	\$2,311,590	\$90,122		\$2,221,468
Less: Third Party		<u>1,400,532</u>	<u>0</u>		<u>1,400,532</u>
Net State Expenses		<u>\$ 911,058</u>	<u>\$90,122</u>		820,936
State Payments					<u>912,956</u>
Overpayments					\$92,020
Less: Recovered by OASIS					<u>1,898</u>
Refund Due the State					<u>\$90,122</u>

Notes:

- (a) Duplicate fringe benefits included in claim for salaries.
- (b) Claim exceeded expenditures.
- (c) Undocumented claim.
- (d) Claim unrelated to the audited contract.
- (e) Disallowance reduced by under claim of allowable expenses .