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Investors Reaping Huge Profits From NY Program for Retarded

By Susan Giller and T. J. Collins

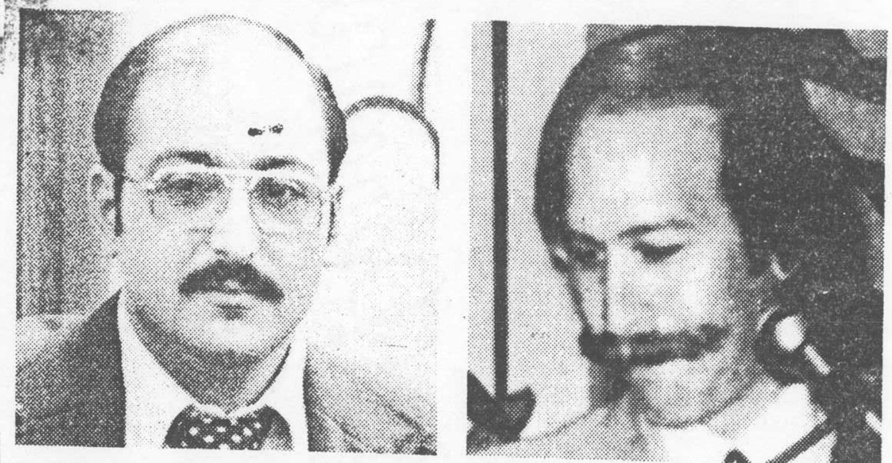
One of Long Island's most ambitious programs for retarded persons is generating huge real estate profits for a few investors by charging the state two to five times the fair-market rental for its homes.

The program, run by Human Educational Advancement (HEA), was devised by two moonlighting educators of the Board of Cooperative Educational Services (BOCES) and is providing community housing and retraining for 48 retarded persons in 12 Suffolk County homes. A Newsday investigation has shown that HEA is charging the state up to $1,700 a month for renting middle-class Long Island houses that ordinarily rent for $325 to $600 a month. The rents have been paid to a real estate firm set up by two other moonlighting BOCES officials, one of them the director of BOCES special education division.

Details of the real estate transactions were uncovered during investigations of the program by Newsday and Assemb. John Flanagan (R,C-Greenlawn). Reporters also uncovered a previously undisclosed state audit of the program that accused HEA of misuse of funds, sloppy record-keeping and questionable business procedures. Suffolk County District Attorney Patrick Henry subpoenaed some of HEA's records earlier this week and Flanagan and Assemb. Robert Wertz (R,C-St. James), ranking minority member of the Assembly's Mental Health Committee, said that the program would be the target of legislative hearings within the next three weeks.

The program is part of the effort to comply with a court-mandated removal of former patients of the Staten Island Developmental Center in Willowbrook from state institutions into community homes. The Office of Mental Retardation and Developmental Disabilities (OMRDD) is charged with overall supervision of the removal program. Last February, HEA presented the state agency with a complete program for the housing and care of Willowbrook patients then being housed at the Suffolk Developmental Center in Melville. Key officers of HEA are George Bouklas, coordinator of curriculum for BOCES, and Stewart Goldberg, principal of BOCES-sponsored Woodbury Learning Center in Huntington Station. The state agreed to fund the program.

Several weeks later, two other BOCES officials set up M&G Realty Associates. The two owners of M&G are Paul Maracina, business administrator of BOCES III, and Fred Gehm, director of the BOCES Special Education Division and the supervisor of Bouklas and Goldberg. Using mostly state money advanced to it by HEA,



Bouklas, left, and Goldberg work for HEA, which runs program for the retarded

M&G bought 12 houses at various Suffolk locations and rented them to the state through HEA. State officials interviewed over the past several weeks defended the rents as a fair return on investment by M&G, but they said that they are currently recalculating the rents. At the current rate, the two owners of M&G could reap over $500,000 in real estate profits over the next 5 to 8 years.

M&G is charging the state from $1,195 to $1,773 a month rent for each of the four-bedroom homes, most of which are in developments and which cost from $36,000 to $65,000 in cash and mortgages. According to local real estate agents, the going market rents for similar houses in the same neighborhoods range from $350 to $600 monthly. Bouklas and Goldberg draw salaries of $20,000 and $19,000, respectively, for their part-time positions with HEA as well as full-time salaries of $29,143 and $35,243, respectively, from BOCES. Maracina and Gehm earn $40,000 and $45,000 a year, respectively, from BOCES.

Gehm and Maracina defended their rent charges, arguing that they are in a "high risk business."

Here are some of the key findings uncovered by Newsday or the state audit that was done last June:

● M&G Realty admitted using $54,000 security money from the state that was to have been kept in escrow as down payments on the homes.

● Although both HEA and M&G claim to operate at "arms length," HEA's $25,000-a-year housing coordinator, Vincent Naro, is the father-in-law of Gehm, one of the partners in the real estate firm. Naro also owned one of the homes purchased for use in the program. At least three other relatives of those involved with HEA or M&G were hired and paid by HEA on a part-time basis.

● House and office ledgers of the HEA operation were sc incomplete auditors found them useless.

● None of the 25 clients in the program at the time of the June audit met the Medicaid eligibility criteria for the level of care each was getting.

● State auditors found inadequate daily treatment plans for most of the retarded residents in the program.

"The state, either through ignorance or criminality, has spent a large amount of money resulting in windfall profits for some people without ever really monitoring it," said Flanagan, a member of the Assembly Ways and Means Committee.

The first year of the program was funded with state start-up funds of $200,000 and state operating funds of $486,000. In addition, clients in the program are eligible for federal funds through Social Security and Medicaid. Federal payments for the 48 clients in the program, would amount to $408,000 in a year's time.

To a large degree, the home purchases were pyramided by M&G, which used the first month's rent from one house plus a 3-month security deposit paid by the state for placement in an escrow account to finance the purchase of the next home.

Flanagan began to investigate the HEA program because of complaints by residents of Cook Street in Huntington Station, where one of the homes is located.Residents said that they had not been informed the home was being set up and that the home's residents were walking the streets without proper supervision.

Flanagan reports that, at one public meeting called to discuss Cook Street, Bouklas was asked how much rent was being paid for the home and Bouklas claimed he didn't know, even though he had signed all the leases. "When I asked them later why they didn't supply the rental figure," Flanagan said Bouklas answered, "'They would have killed me.'"

The rents were calculated by the state's Facilities Development Corporation (FDC), which evaluates rental and purchase prices for other state agencies.

George Haggerty, director of the FDC'S real property division, said the rents were not intended to reflect rents being charged by private homeowners in the area, but were based on an "economic" approach. Under that approach, the state rental figures include mortgage principal and interest, taxes, insurance, depreciation, cost of structural repairs, and a 14 per cent return on M&G investment. Haggerty said banks and other investors consider doing business with the state a "high risk" and do not get involved.

According to the audit, the FDC calculated the rents based on information provided by HEA. The audit reportedthat a "a down payment of 25 per cent was made and a 5-year mortgage on the remaining 75 per cent of the purchase price was acquired at an annual rate of 12 per cent."

Haggerty, however, said that the audit information was not correct and that the rents and terms were only hypothetical because the houses at the time of the audit had not yet been purchased. Haggerty said that the FDC is now in the process of recalculating the rents based on actual mortgage terms. Tentative figures issued by OMRDD indicate that the current $216,348 yearly rents on the homes will be decreased to $182,844 a year. Past overpayments to M&G will be deducted from future rental payments, according to Cora Hoffman, OMRDD's director of community relations.

The houses are leased to HEA by M&G for five years with an option to renew for a second five years. The leases can be cancelled with 30 days notice.

Gehm and Maracina agreed that the rents their firm is charging do not reflect rents usually charged for houses in the area.

"If you look at the $1,800 rent, it looks like we're getting rich," Gehm said. "It's a high risk business . . . My motive was not monetary gain; my motive was to get the program started."

He said that he and Maracina bought the homes with the understanding that the state, through its rents, would pay them off in five to eight years.

Gehm told Newsday that he and Maracina used the $54,000 security deposit to buy homes because their lease with HEA stated that the money represented the last three months' rent rather than a security deposit and that they believed they could use it as they pleased. When the state threatened to terminate the contract with HEA and start criminal action to recover the money, Maracina and Gehm said they set up the account with borrowed money. They estimate that they initially invested about $60,000 of their own funds and now must also repay the $50,000 loan borrowed for the escrow account.

Maracina explained how they bought the houses: "When we closed on one home, we would take the first month rent and the last three months' rent and use it to buy the next house. We kept turning them over that way." Tentative figures supplied by the state show total purchase prices on the houses of $631,000, with M&G having about $168,000 invested at this point through the pyramiding process.

During one interview, Gehm said that there was an "arms- length" relationship between HEA and M&G, but, subsequently, he admitted that Naro, HEA's housing coordinator, was his father-in-law and that M&G bought a new house for the HEA program built by Naro in Ronkonkoma.

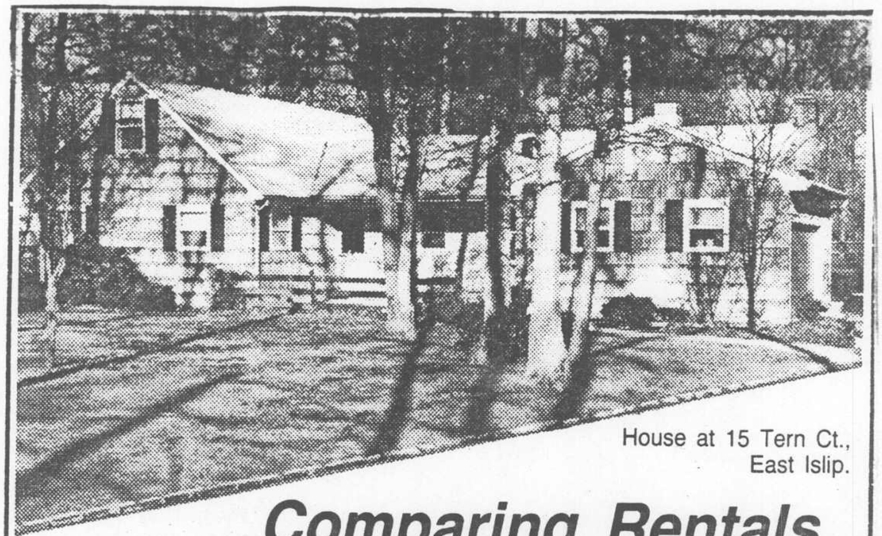
"The state had us up against the wall," Gehm said in explaining why theyhad bought the house of his father-in-law. "The people in Albany were under a mandate to place these kids or go to jail . . . The state kept pressing us for not meeting our contractual obligations and was threatening to cancel," Gehm said. Naro refused to talk to reporters.

Several other relatives, including Maracina's son, Richard, Naro's son, Sal, and a man named Arthur Bouklas, were hired to perform various jobs for HEA, including trucking, landscaping, and setting up furniture. According to HEA records, Richard Maracina got about $1,800 for mowing lawns and landscaping and for a trucking job. Sal Naro received $231 and someone named Arthur Bouklas, was paid $195.

When told of Gehm and Naro's relationships and other Newsday findings , OMRDD Commissioner James Introne said, "These things are highly irregular and need some special scrutiny."

The state budget process makes it difficult for the state to buy homes. Tom Coughlin, who was commissioner of OMRDD at the time the program was approved and now is commissioner of corrections, expressed frustration with the red tape.

"In 1975-76, I was given $12 million to open community residences," Coughlin told a reporter. "When I left last year, I gave $10 million back. The state procedures to spend money were not compatible with the timetable set by the [Willowbrook] decree," Coughlin said. Normally, homes for the retarded are purchased directly by the state or by non-profit agencies who then lease them back to the state. But Coughlin said many non-profit agencies are not willing to handle the severely retarded in their programs.



House at 15 Tern Ct., East Islip.

Comparing Rentals

Address	Purchase Price	Monthly Rental to State	Average Rental in Area
2 Bell Ct., Ronkonkoma	$49,000	$1,332	$350-500
9 Acorn Rd., St. James	65,000	1,698	500-550
2 Sheryl Crescent, Smithtown	57,500	1,671	500-600
748 Terry Rd., Hauppauge	65,000	1,773	375-525
38 Cornelia Lane, Lake Grove	57,000	1,611	375-525
39 Lakeside Dr., Lake Grove	40,000	1,237	400-525
54 Sequoia Dr., Coram	36,000	1,195	350-450
15 Tern Ct., East Islip	62,000	1,740	325-450
442 Randall Rd., Ridge	47,000	1,425	325-375
4 Media Lane, Stony Brook	48,500	1,419	450-600
281 Cook Street, Huntington Station	61,000	1,696	400-600
6 Hemlock, Mt. Sinai	43,000	1,232	350-400

Newsday Chart by Philip Dionisio

In addition to the missing $54,000 escrow account discovered in the June review of HEA's book, auditors also discovered other glaring problems.

The audit said that HEA had apparently used no "objective, standardized means" to select the 25 retarded persons then in the program, and, consequently, there was no evidence that the individuals were eligible under the federal Medicaid program for the high level of personal care they were getting. The Medicaid payments, $540 a month per client, are paid for the purpose of serving the special needsof some profoundly retarded individuals. Program auditor Thomas Articola told Newsday, "We had no way of assessing whether they were eligible because the proper testing had not been done."

The auditors also found that HEA had issued five blank checks to the Carmine A. Telesca Company of Babylon, which supplied about $50,000 worth of furnishings for the houses—a procedure that auditor Neal Isaacs called "highly unusual." The audit also said that HEA could produce no evidence that three bids had been solicited for the merchandise purchased from Telesca, as required by the state, but auditors were told by HEA officials that the bids existed. Telesca told Newday he did not bid.

The auditors also criticized HEA's telephone bills that averaged more than $1,000 a month and said, "The agency should take steps to reduce its long distance calls immediately." The auditors added that the $10,200 in HEA'S annual budget for telephones "is excessive for a locally operated program." HEA told the auditors that the calls were made to Albany to try to acquire money for the program.

Finally, the auditors reported that, when they arrived at HEA's headquarters in Smithtown on June 5 as theyhad previously informed HEA they would do, the books were not available and did not become available until June 7. The auditors reported that they were told by HEA that the accountant had the records and was out of town. "I've been doing professional audits for seven years and never came in when books were not available," Isaacs told Newsday. A re-audit by the state is scheduled for mid-January.

Bouklas and Goldberg left abruptly during an interview with Newsday, before many questions were asked, and refused to talk with reporters again. Christine Carpenter, president of the five-member board of HEA, also refused to discuss the program with Newsday.

Bouklas and Goldberg then told OMRDD that they would respond to questions in writing if they were submitted by Newsday through OMRDD. Newsday declined.

"In any new program you have documentation problems," said Cora Hoffman, OMRDD's Director of Community Relations in discussing the audit report. "Those kids who used to be living at Willowbrook are a hell of a lot better in this program. The program does not meet the standards we wish it would, and we have given the agency a 90-day period to correct deficiencies noted in the audit."

The audit report contains no mention of HEA's board meetings, which according to Goldberg, were held at the Watermill Restaurant. Bills totaling more than $750 for dinner meetings at the Watermill during these alleged board meetings were paid with state funds. When a representative from Flanagan's office asked to see copies of minutes from the meetings, Goldberg was unable to find any. Such use of state funds is "totally inappropriate," said Hoffman.

The audit report also did not note other costs that Flanagan finds questionable. For example, Harold Lightstone, a BOCEs teacher, said that he was paid $3,400 to transport furniture for three of the houses from a state warehouse in Albany to Long Island. HEA's budget also allowed $2,034 a year for each resident's food, while the Long Island regional office allowed $1,350 year for residents of other community homes.

Introne said that the state's 1-year contract with HEA expires Jan. 31 and that a decision will be made whether to renew the program "after the results of a re-audit are in." HEA submitted a plan to the state to correct the problems found in the audit. The re-audit is scheduled for mid-January, Introne said. Hoffman said that other agencies could take over the program if the results of the audit are unsatisfactory.