expected to give the reimbursement to the developmental center.

Essentially, the Regan audit discovered that UCP had improperly kept approximately $10.5 million in Medicaid reimbursements for shared services. These services included staff salaries and fringe benefits, religious activities, utilities, security and grounds-keeping.

In addition, the comptroller's staff calculated that UCP padded the shared-service bill by $1.5 million of the total, using an inflated Medicaid rate.

"In almost every instance, UCP was funded in excess of its expenditures, or it recovered funds but did not refund them to the state as required," the auditors wrote.

To avoid future overcharging, the auditors revised the Medicaid rate established by UCP, whittling it from $85 to $77.64 per resident-day.

Regan advised the state to negotiate a repayment plan for the Medicaid funds owed to the state by UCP, taking into account interest on funds invested by the agency.

Kevin Travis, an audit specialist in the state Office for Mental Retardation and Developmental Disabilities, said yesterday that the inaccurate Medicaid rate reflected a common problem created by the need to budget expenses in advance.

Acknowledging that UCP continued to use the inflated rate for three years. he said: "It probably pays to wait a while before you go back to validate actual costs. Otherwise, you'll set a rate on bum information and put the agency out of business."

In 1977 the Warner Center encompassed 10 buildings serving 626 mentally retarded residents. A federal court-ordered policy of closing institutions and replacing them with group homes in the community has reduced the center to six buildings holding 460 residents.

Regan's staff found that as part of the push toward community placement, the Office for Mental Retardation secured interest-free loans from UCP, violating the state Finance Law.

The $1,050,000 in loans, derived from Medicaid funds and since repaid by the state, were used as starter capital for community programs unspecified in the audit.

Irritated by Regan's criticism of the loan venture, Introne said yesterday that he could be declared in contempt of court if the state failed to proceed with the community placement programs.

"There was a great deal of frustration in getting the cash to move fast enough," he said. "UCP agreed to help the state out."

"What the audit doesn't say," Introne added, "is the amount of money New York state owed UCP for services it provided. The state has been a bad payer. If you're going to balance the accounts on one side, you certainly should balance them on the other side."

The comptroller's audit is based on a review of UCP records for the period September 1977 to September 1978. Extrapolation from the audit's one-year scope produced the $10.5 million figure in excess Medicaid funds through 1980.

Regan's staff also identified the following questionable financial practices during the Warner Center's first year in operation:

¶UCP was tardy in informing the Social Security Administration that the care of some Warner Center residents had been shifted to Medicaid, rendering them ineligible for Social Security Income (SSI). Nearly $68,000 in SSI was wrongly collected by the center as a result.

¶Under a contract for the purchase of supplies, the Office for Mental Retardation paid $2,500 in "administrative" costs to a UCP subdivision, Housing for the Disabled.

"This was primarily for the writing of 24 checks," the auditors complained. "This charge appears excessive for such minimal services, especially since the center did all of the purchasing."

¶UCP overstated by $196,461 the administrative work performed in its Manhattan office on behalf of the Warner Center. UCP denies any misrepresentation, according to Travis.

The agency contends that it was promised reimbursement through the Warner Center of 2 percent of its central office costs. The challenged amount is less than 2 percent, but Travis said UCP may not have realized it was required to document the expenses.