access to accounting ledgers, reported allegations that patients had been billed 25 to 74 percent more than retail prices by a clothing boutique the agency runs at the Nina Eaton Center.

The audit, while neither confirming nor denying excessive prices at the boutique, questioned its inventory and purchase sheets, recommending: "A more critical and attentive review of the records by UCP's accounting staff is required to mitigate this poor control situation."

Noting that a single employee performs all of the boutique's business functions, the report said: "The markup on residents' purchases is also calculated by this same individual, and no supporting documentation or workpapers are regularly maintained."

"To maintain adequate internal control," the report advised, duties at the boutique "should be segregated between different individuals."

The audit listed a random selection of discrepancies in financial records, as follows:

¶Clothing purchases of one patient were charged to the personal funds of another patient.

¶No limit was imposed on the amount of apparel purchased during a given period. In a single month, for example, one patient was billed $1,300 while another was billed $800.

¶Because large quantities of clothing have been charged to patient funds (also tapped for a variety of individual needs such as recreation and therapeutic equipment), "many funds currently have negative balances."

¶A total of $914 in clothing purchases was charged twice to the funds of "certain" patients on Sept. 18, 1981.

¶So-called personal inventory cards listing the wardrobe of each patient "did not agree with purchases charged to the residents' personal funds."

The auditors concluded: "UCP management has stated that these items were isolated errors. Corrections, however, were not made during the period reviewed, although the transactions were in certain cases over a year old."

The report found that United Cerebral Palsy collected, and possibly spent, a large portion of an $11-million Medicaid request for services it did not provide between September 1978 and September 1980.

These costs actually were incurred by the state, the audit said. The state-run Staten Island Developmental Center and the Karl D. Warner Center, located on the same campus, share some buildings and consequently rental, security, utility, administrative and staff costs. Excluding the funds intended for the state, the Warner Center Medicaid budget was $18.8 million in 1979 and $20 million in 1980, according to the audit.

Puccio said the agency contended it had kept the misdirected reimbursement because its own Medicaid rate was inadequate. But he said state officials have not determined whether United Cerebral Palsy spent the funds or deposited them in an interest-earning bank account.

"In theory, there is the possibility of interest," he said. "In reality, I don't think there is any surplus of funds at this facility." Puccio added that, because of bureaucratic delay in the Medicaid program, United Cerebral Palsy had collected only about $10.2 million of the questionable funds.

Federal and state Medicaid regulations, Puccio said, "are designed in such a way that we minimize any opportunity a provider might have to make a profit, so to speak, by investing, collecting interest and having the cash sitting around in their pockets."

Deloitte, Haskins & Sells concluded that United Cerebral Palsy had not acted improperly in awarding a Medicaid-funded contract for security guards, worth $260,000 annually, to a company owned by a member of the agency's board of directors.

The auditors absolved the agency of conflict of interest because it paid rates comparable to those paid by other clients of the company, L&M Security Services Inc., of Jericho, Long Island.

The auditors did not, however, consider allegations of United Cerebral Palsy employees that L&M was reimbursed for administrative services it did not provide. The company is owned by J. Kevin Meneilley, the vice president for finance of the United Cerebral Palsy board of directors.

Without going into detail, the report also made the following observations and recommendations:

¶Evidence of competitive bidding is not maintained for the agency's institutional food service and "most other major service contracts." The subcontract with L&M, entailing a relatively small amount of money, was the only one for which the agency produced bidding records.

¶United Cerebral Palsy "should enter into a formal lease agreement relating to its warehouse operations." The 9,000-square-foot warehouse in Newark is owned by Maxwell Ehrlich, a wholesale furniture broker who donated pieces to the agency's Manhattan headquarters.

¶Warner Center files lacked forms, required by the state, indicating that parents or guardians had consented to the place of residence or medical treatment of patients. The files also failed to document whether efforts were made, as United Cerebral Palsy asserted, to locate the parents or guardians of more than 100 patients.

¶The Warner Center was plagued by a "substantial amount of pilferage" of supplies such as laundry, linen and toiletry items.

¶The agency apparently has failed to formulate or abide by a policy regarding the "disposition of deceased residents' funds."