REPORT DIGEST

DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES
CENTRAL OFFICE
FINANCIAL AND COMPLIANCE AUDIT
(In accordance with the Single Audit Act of 1984 and OMB Circular A-128)
FOR THE TWO YEARS ENDED JUNE 30, 1995

SYNOPSIS

●The Department did not cancel a lease although the lessee had not made the required payments. By invoking the cancellation provisions of the lease, the Department could have terminated a lease agreement which yields an extremely low return.

●The Department did not develop formal policies and procedures to maximize earnings on monies bequeathed to the Department for the benefit of the Elgin Mental Health Center.

●The Department was not in compliance with various State and federal reporting requirements.

{Expenditures and Activity Measures are summarized on the reverse page.}

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE MANAGEMENT OF LEASE AGREEMENT

The Department did not cancel a lease although the lessee had not made the required payments. By invoking the cancellation provisions of the lease, the Department would have ensured termination of a lease agreement which yields an extremely low return.

The lease governs property initially willed to the Illinois Northern Hospital for the Insane at Elgin (now the Elgin Mental Health Center) in 1878. In 1912, the State Board of Administration, acting as trustee for the Illinois Northern Hospital at Elgin, leased the property to a private individual for a 99 year period (i.e. until 2011). The lease terms, which are still in effect, require the lessee to make quarterly payments of $1,000 (for a total of $4,000 annually) to the Department.

The property consists of a five story building in downtown Chicago (174 West Randolph Street). The annual lease payments (of $4,000) represent an extremely low return for the Department and the Elgin Mental Health Center. For example, the Office of the Attorney General, in August 1984, signed a five year agreement to lease over 20,000 square feet of space in this building for an annual rent of $201,000. Further, the lessee does not pay property taxes since the State is the actual owner of the property.

The lessee has not made a lease payment to the Department for rent due in 1995. The lease allows the Department to cancel the lease if the lessee is 90 days past due in its quarterly payments. In effect, the Department had the opportunity to cancel the lease 90 days after the lessee missed its February 1, 1995 payment (i.e. on May 1, 1995).

On May 18, 1995, the Elgin Mental Health Center notified the Department's Central Office that the lessee had failed to make its February quarterly payment and the payment was 90 days past due. In September 1995, the Department asked the Attorney General to seek action to nullify the lease due to non-payment.

Department officials accepted our recommendation to pursue cancellation of the lease and further stated the Attorney General's Office is now in charge of this case. They also stated that if it is determined the Department has the legal right to enter into a new agreement, every effort will be made to ensure that it is at fair market value and for a reasonable time period. (Finding 3, Page 8)

INADEQUATE MANAGEMENT OF TRUST AGREEMENT

The Department did not develop formal policies and procedures to maximize earnings on monies bequeathed to the Department for the benefit of the Elgin Mental Health Center.

In addition to the property at 174 W. Randolph, Chicago, Illinois, (see Finding 3) the Department received cash in excess of $45,000. The will stipulated that any net income should be used for the treatment and care of residents at what is now called the Elgin Mental Health Center.

The Department placed the principal in a trust administered by a Springfield, Illinois bank. In turn, the bank, as trustee placed the funds in various investment instruments.

In Fiscal Year 1994, the net earnings, after trust fees and other expenses, amounted to 2.09 percent of the average investment balance. In Fiscal Year 1995, net earnings amounted to 3.24 per cent of the average investment balance.

The Department and the Elgin Mental Health Center could increase net earnings if it reduced investment expenses. In the current trust arrangement, agent fees and other expenses averaged slightly more than $1,000 per year. The Department could eliminate the expenses if it directly invested the money in the most conservative instruments available (Insured Certificates of Deposit and direct obligations of the U.S. Government) or allowed the Elgin Mental Health Center to do the same.

Department officials accepted our recommendation to examine alternatives to manage the Trust Agreement and adopt formal policies and procedures governing the investment of these funds. (Finding 4, page 9)

NONCOMPLIANCE WITH REPORTING REQUIREMENTS

The Department did not comply with various reporting requirements:

- Status reports, due on or before February 1, 1994 and 1995, on compliance with all mandatory provisions of the Omnibus Budget Reconciliation Act, were not prepared. (Finding 1, page 7)

- The fiscal year 1995 annual plan due April 1, 1994 was available in draft form by the due date but had not been published as of December 14, 1995. (Finding 2, page 7)

- Some federal financial status reports were filed after the deadline for reporting. (Finding 14, page 142)

Department officials generally attributed the noncompliance to a shortage of staff resources. They accepted our recommendations and further stated resources will be reallocated and priorities will be to ensure timely completion of all reports in the future.

AUDITORS' OPINION

In our auditors' opinion the Department of Mental Health and Developmental Disabilities' financial statements are fairly presented at June 30, 1995 and 1994.

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WILLIAM G. HOLLAND, Auditor General

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SUMMARY OF AUDIT FINDINGS

Number of	Current Audit	Prior Audit
Findings	5	13
Repeated audit findings	1	5
Prior recommendations implemented or not repeated	12	9

SPECIAL ASSISTANT AUDITORS

KPMG Peat Marwick LLP were our special assistant auditors for this audit.

DEPARTMENT OF MENTAL HEALTH AND
DEVELOPMENTAL DISABILITIES - CENTRAL OFFICE
COMPLIANCE AUDIT
For The Two Years Ended June 30, 1995

EXPENDITURE STATISTICS	FY 1995	FY 1994	FY 1993
●Total Expenditures (All Funds)	**$531,024,289**	**$475,794,791**	**$445,952,047**
OPERATIONS TOTAL % of **Total** Expenditures	$28,633,323 5.4%	$25,672,163 5.4%	$37,756,591 8.5%
Personal Services % of Operations Expenditures Average No. of Employees	$14,796,184 51.7% 383	$13,770,608 53.6% 336	$12,753,596 33.8% 337
Other Payroll Costs (FICA, Retirement) % of Operations Expenditures	$2,266,195 7.9%	$2,049,455 8.0%	$15,748,619 41.7%
Contractual Services % of Operations Expenditures	$5,663,163 19.8%	$5,347,098 20.8%	$4,186,888 11.1%
All Other Operations Items % of Operations Expenditures	$5,907,781 20.6%	$4,505,002 17.6%	$5,067,488 13.4%
GRANTS TOTAL % of **Total** Expenditures	$502,390,966 94.6%	$450,122,628 94.6%	$408,195,456 91.5%
●Cost of Property and Equipment	**$3,529,529**	**$3,169,600**	**$3,043,139**

AGENCY DIRECTOR(S)
During Audit Period:Mr. Jess McDonald (2/92 - 6/94) Ms. Lynn Handy, Acting Director (6/94 - 3/95) Ms. Ann Patla (Effective 3/15/95) Currently:Ms. Ann Patla