# REPORT DIGEST

**MANAGEMENT AUDIT**

**PILSEN-LITTLE VILLAGE COMMUNITY MENTAL HEALTH CENTER, INC.**

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State of Illinois
Office of the Auditor General

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## SYNOPSIS

House Resolution Number 1146 directed the Auditor General to conduct an audit of the Pilsen-Little Village Community Mental Health Center, Inc. (Pilsen). Pilsen received $14 million, or 76 percent of its total funding from the State during fiscal years 2004 – 2006, primarily from the Department of Human Services. Our review of Pilsen's activities and expenditures identified a number of findings:

- During fiscal years 2005 and 2006, Pilsen paid over $30,000 in property taxes. Pilsen operates as a not-for-profit corporation and qualifies for an exemption from property taxes. After the completion of our fieldwork, Pilsen received a refund in November 2007 for $16,661 of the property taxes paid.
- We noted related party transactions that involved Pilsen and Pilsen's newest Board member, including the purchase of property for $6.4 million.
- Pilsen programs, including State-funded programs, were over-allocated $21,361 in healthcare and dental expenses for Latino Youth Alternative High School employees.
- In our review of personnel files, we noted: 32 percent of sampled files lacked documentation that the individual met the established job qualifications for their position and 48 percent lacked documentation on performance appraisals.
- Although required by its policies, Pilsen did not utilize competitive bidding for any of the six construction contracts, totaling $170,100, in our expenditure sample.
- Pilsen did not maintain an accurate listing of its vehicles and had difficulty providing a list of vehicles when requested. An examination of Pilsen's property and equipment listing showed only five of its nine vehicles were included as assets.
- Salary expense for unallocated activities was inappropriately charged to Pilsen's programs.
- Pilsen incurred a total of $24,763 in cell phone charges during fiscal years 2005 and 2006, which included excessive roaming charges ($3,067 in roaming charges for two sampled expenditures) for the Executive Director's cell phone while the Executive Director was out of the country.
- Pilsen does not take physical inventory of its assets on a regular basis.
- In our sample review of the agency's expenditures, 15 of 42 (36%) credit card purchases of $50 or more did not have the required receipt.

# REPORT CONCLUSIONS

Pilsen-Little Village Community Mental Health Center, Inc. (Pilsen) provides social and mental health services to the primarily Hispanic community of Pilsen-Little Village and to the Chicago Metropolitan area at large. Pilsen received $14 million, or 76 percent of its total funding from the State during fiscal years 2004 – 2006, the majority from the Department of Human Services. Pilsen also received State funding from the Department of Public Health, the Illinois State Board of Education, and the Department of Healthcare and Family Services.

Our audit identified expenditures which were inappropriately charged to State programs. We also found that documentation supporting some of the expenditures sampled was lacking. Our review of Pilsen's activities and expenditures identified a number of findings:

- We identified inconsistencies in Pilsen's allocation of costs. For example, Pilsen determined that expenses associated with certain activities were not directly associated with the services Pilsen performs and classified them as unallocated expenses (i.e., they were not allocated to Pilsen's programs). However, the salary costs of the staff that undertook these activities were allocated across all Pilsen's programs, including State-funded programs. So while the activities being performed were deemed as not associated with the services Pilsen provides, the time spent performing these activities was still charged to Pilsen's programs.
- Healthcare and dental expenses for the Latino Youth Alternative High School employees were allocated across all programs, including State-funded programs, instead of being charged directly to the High School. This resulted in $21,361 being over-allocated to other programs, including State-funded programs.
- In our review of personnel files, we noted that for 32 percent of employees in our sample, documentation in the file did not support that the individual met the established job qualifications for their position. Personnel files should be complete and accurate and demonstrate an individual meets the job requirements. In addition, 48 percent of the files lacked documentation on performance appraisals.
- Pilsen does not take physical inventory of its assets on a regular basis. Some of these assets were purchased with State funds, which could lead to a loss of State property. We also found inconsistencies in the tagging of assets. For example, some computers and monitors, which are items susceptible to theft, were tagged while others were not.

- Pilsen did not maintain an accurate listing of its vehicles and had difficulty providing a list of vehicles when requested. An examination of Pilsen's property and equipment listing showed only five of the nine vehicles owned by Pilsen were included as assets. The list of authorized drivers that was provided was not consistent with the names on the fuel purchasing invoices. Pilsen also had other problems with fuel purchases, including lack of receipts and questionable odometer readings.
- Pilsen did not utilize competitive bidding for any of the six construction contracts, totaling $170,100, in our expenditure sample. Pilsen's Financial Procedures Manual states that a minimum of two bids shall be obtained when procuring major maintenance or capital expense items.
- Pilsen uses a Check Request form that must be completed for all expenditures. In our sample of expenditures, 77 percent (168 of 217) of check requests did <u>not</u> have supervisor approval.
- Pilsen incurred a total of $24,763 in cell phone charges during fiscal years 2005 and 2006. These charges included excessive roaming charges ($3,067 in roaming charges for two sampled expenditures) for the Executive Director's cell phone while the Executive Director was out of the country. The Pilsen Financial Procedures Manual states that only six cell phones have been authorized. However, Pilsen had 15 cell phones with three different providers: 9 phones with one provider, 5 phones with another, and the Executive Director's cell phone was through a third provider. Cell phone bills sampled during expenditure testing showed 6 of the 15 cell phones with no usage during the sampled billing period and 2 additional phones with limited usage.
- During fiscal years 2005 and 2006, Pilsen paid over $30,000 in property taxes. Pilsen operates as a not-for-profit corporation and qualifies for an exemption from property taxes. Over $18,000 was charged primarily to State-funded programs either as a direct cost or through the cost allocation plan. Subsequent to paying the property taxes, Pilsen obtained tax exempt status for two properties. After the completion of our fieldwork, Pilsen received a refund in November 2007 for $16,661 of the property taxes paid.
- Pilsen entered into a lease to move the Latino Youth Alternative High School (LYAHS) to a new location. The next month, Pilsen's Board added a new Board member who had a 30 percent interest in the newly leased property. The new Board member also made a $104,000 donation (according to meeting minutes the donation was $125,000) to Pilsen at the time of the lease and agreed to purchase the old LYAHS building for $1.15 million. On August 11, 2006, Pilsen's Board voted to purchase the newly leased property.

However, a new organization, the Pilsen Little Village Community Management Organization, which was formed August 24, 2006, purchased the newly leased property for $6.4 million. The property was purchased August 25, 2006 and the closing documents were signed by Pilsen's Executive Director who was also the Executive Director for the new organization. The fiscal year 2006 Financial Statements did not disclose related party information regarding the lease agreement for the building at 2001 S. California or for the sale of the old Latino Youth building at 2200 S. Marshall, both of which occurred in fiscal year 2006.

- In our sample review of the agency's expenditures, 15 of 42 (36%) credit card purchases of $50 or more did not have the required receipt. Receipts that were submitted often lacked the detail necessary to determine what was purchased.
- We reviewed 17 expenditures, totaling $9,613, that involved out-of-state travel. These included travel to Mexico, California, Florida, Georgia, Arizona, and Washington, DC. Travel expenses included airfare, hotel, and per diem. Two of the expenditures totaling $1,068 lacked documentation. For two other expenditures totaling $1,187, Pilsen was to be reimbursed for the expense, however, in both cases, the reimbursement did not occur.
- Pilsen lacks a tuition reimbursement policy that could outline the procedures and conditions for having tuition reimbursed and the documentation required to verify the course was completed.
- Pilsen paid gratuities that were charged to State-funded programs. In our sample of expenditures, we identified $363.34 in gratuities charged directly to State-funded programs and $78.40 in gratuities allocated to all Pilsen programs, including State-funded programs.
- In our review of agency expenditures, we noted four expenditures totaling $7,463 for consultants that either lacked written agreements or the agreement lacked detail for the work to be performed.
- Some of the programs at Pilsen operated at a deficit; they incurred more expenses than the revenue received to operate the programs. The programs with a surplus supported these deficit programs. The most profitable programs, such as the Pilsen Inn, were primarily State-funded programs. A fiscal year 2006 expense analysis showed expenses were charged to 32 cost centers. Of these 32, 12 operated with a surplus while 20 operated at a deficit.

The Department of Human Services (DHS) provided $13.7 million in funding to Pilsen during fiscal years 2004 – 2006. DHS performed several on-site reviews of Pilsen along with numerous other types of monitoring functions, including grant fund reconciliation and post payment reviews. Reviews resulted in recouped funds for unsubstantiated billings and other violations that required Pilsen to submit corrective action plans.

Pilsen received $85,000 in grant funding for six grants from the Illinois Department of Public Health. We noted problems with the Department of Public Health's monitoring of these grants, including failing to recover $16,798 in unspent funds for one grant and $863 for another grant.

Pilsen received a $250,000 grant from the Illinois State Board of Education (ISBE) to be used in four of its children's programs. Pilsen's final expenditure report, due July 31, 2006, was not received by ISBE until September 12, 2006. In addition, the report was not accepted due to errors in the report and a revised report was received on September 22, 2006. No supporting documentation was turned in with either expenditure report and ISBE did not follow-up on the accuracy of the expenditure report.

In August 1999, the Office of the Auditor General released a management audit of Pilsen. The audit resolution for that audit was very similar to this audit with the same scope and objectives. This audit contains some findings that are similar to findings in the 1999 audit. Finding areas that are similar include property taxes, cell phone usage, travel expenditures, inventory, related party transactions, and lack of documentation for expenses. The 1999 audit contained 17 recommendations.

## BACKGROUND

On May 4, 2006, the Illinois House of Representatives adopted House Resolution Number 1146 which directs the Auditor General to conduct an audit of Pilsen-Little Village Community Mental Health Center, Inc. (see Appendix A). The Resolution directs that the audit determine whether funds received by Pilsen have been spent according to applicable State laws, regulations, contracts, and grants.

Pilsen-Little Village Community Mental Health Center, Inc. (Pilsen) provides social and mental health services to the primarily Hispanic community of Pilsen-Little Village and to the Chicago Metropolitan area at large. The organization is overseen by a nine-member Board of Directors and managed by an Executive Director. Pilsen is organized around an administrative office and four divisions: Mental Health, Substance Abuse, Youth Services, and Education. (pages 4-10)

## PILSEN FUNDING BY STATE AGENCIES

**Pilsen received 76 percent of its funding from the State during fiscal years 2004 - 2006.**

The State of Illinois is the major funding source for Pilsen activities. During fiscal years 2004 – 2006, the State contributed more than $14 million – or 76 percent of Pilsen's total revenue. Digest Exhibit 1 outlines State funding compared to overall revenue at Pilsen during the audit period.

While agencies have conducted reviews of Pilsen activities, none of the agencies have conducted a detailed review of expenditures, as we were directed pursuant to House Resolution Number 1146. Given the deficiencies outlined in this report, the State agencies that provided funding to Pilsen should follow-up on the findings and seek recovery of any inappropriately expended State funds.

Digest Exhibit 1
**STATE SUPPORT FOR PILSEN ACTIVITIES**
Fiscal Years 2004 – 2006

| Agency | FY04 | FY05 | FY06 | Total |
|---|---|---|---|---|
| State support: | | | | |
| Human Services | $4,502,000 | $4,406,904 | $4,762,511 | $13,671,415 |
| Public Health | 10,000 | 55,000 | 20,000 | 85,000 |
| State Board of Educ. | - | - | 250,000 | 250,000 |
| Hlthcr. & Fam. Svcs. | 23,806 | 7,668 | 10,961 | 42,435 |
| Total State support | $4,535,806 | $4,469,572 | $5,043,472 | $14,048,850 |
| Total Pilsen revenue | $5,342,334 | $6,057,548 | $7,114,351 | $18,514,233 |
| % of Pilsen revenue from State support | **85%** | **74%** | **71%** | **76%** |

Note: Total State support includes both grants and fee-for-service payments.

Source: OAG analysis of Pilsen funding.

- **The Department of Human Services (DHS)** provided $13.7 million in funding to Pilsen during fiscal years 2004 – 2006. DHS performed several on-site reviews of Pilsen along with numerous other types of monitoring functions, including grant fund reconciliation and post payment reviews. (pages 13-14)

- **The Illinois Department of Public Health (Public Health)** provided Pilsen $85,000 in grant funding for six grants for fiscal years 2004 – 2006. Pilsen did not submit all reports that were required under the grants and some reports that were submitted were not timely. We also noted problems with the Department of Public Health's monitoring of these grants, including failing to recover $16,798 in unspent funds for one grant and $863 for another grant. (pages 14-17)

- **The Illinois State Board of Education (ISBE**) provided Pilsen a $250,000 grant to be used in four of its children's programs. Pilsen's final expenditure report, due July 31, 2006, was not received by ISBE until September 12, 2006. In addition, the report was not accepted due to errors and a revised report was received on September 22, 2006. No supporting documentation was turned in with either expenditure report and ISBE did not follow-up on the accuracy of the expenditure report. (pages 17-19)

- **The Department of Healthcare and Family Services (DHFS)** provided Pilsen a minimal amount of funds. In fiscal year 2006, Pilsen received $10,961 from DHFS. Pilsen also received $7,668 in fiscal year 2005 and $23,806 in fiscal year 2004. (page 19)

## ISSUES AT PILSEN

Our review of Pilsen's activities and expenditures identified a number of findings. Our audit identified expenditures which were inappropriately charged to State programs. We also found that documentation supporting some of the expenditures sampled was lacking.

### Unallocated Costs

**Salary expense for unallocated activities was inappropriately charged to Pilsen's programs.**

As funds are expended, the expense is charged to the program or programs that incurred the charge. If an expense is associated with the services that Pilsen provides but cannot be identified to a specific program, it is charged as a General and Administrative cost and is then allocated across all programs. Some costs are either an unallowable cost or are not directly associated with the services Pilsen provides. These expenses are charged as Unallocated General and Administrative costs and are not allocated to the various programs.

During our review of expenditures at Pilsen, we noted expenditures that were charged to programs that instead should have been charged as unallocated expenses. These included property taxes, travel, finance charges, and gratuities.

Some unallocated costs were costs associated with meetings, travel, or other activities that involved staff at Pilsen. While the specific costs were not allocated to programs, the majority of the salaries of the individuals were charged to programs. So while the activities being performed were deemed by Pilsen as not associated with the services Pilsen provides, the time spent performing these activities **was still charged** to Pilsen's programs. (pages 23-25)

## Healthcare and Dental Expenses

Healthcare and dental expenses for the Latino Youth Alternative High School employees were allocated across all programs, including State-funded programs, instead of being charged directly to the High School. This resulted in $21,361 being over-allocated to other programs, including State-funded programs. Billings for healthcare and dental expenses for Latino Youth Alternative High School employees accounted for 15.7 percent of the total billings during that time period. However, based on Pilsen's cost allocation plan, only 4.4 percent ($8,445) was allocated to the High School, although $29,807 was actually incurred. (pages 26-27)

**Pilsen programs were over-allocated $21,361 for healthcare and dental expenses for Latino Youth Alternative High School employees.**

## Personnel Issues

Our review of personnel files identified findings related to documentation of employee's qualifications and performance appraisals.

### Job Qualifications

For 8 of 25 (32%) employees sampled, documentation in the file did not support that the individual met the established job qualifications for their position. For example, the position of Program Coordinator for the Drug-Free Program requires a Bachelors Degree in Counseling, Psychology, or Social Work. However, the personnel file for this employee, a relative of the Executive Director, indicated a Bachelors Degree in Fruticulture. Personnel files should be complete and accurate and demonstrate an individual meets the job requirements.

### Performance Appraisals

Employees in our sample did not always receive an annual performance appraisal. For 12 of 25 (48%) employees sampled, the personnel file lacked documentation for performance appraisals. Most files contained a performance appraisal, but in many cases the appraisal was not within the last year.

**In our review of personnel files, 48 percent of the files lacked documentation on performance appraisals.**

One file contained only three performance appraisals (dated 06-18-85, 10-04-00, and 09-21-04) for an employee that had been with the organization for over 20 years. Despite the lack of performance appraisals, this employee received steady 5 percent increases each of the previous five years. Four files contained no performance appraisals. For example, a relative of the Executive Director was hired July 5, 2005 and was promoted six days later with a salary increase of 33 percent. The personnel file for this employee lacked any performance appraisals. (pages 27-29)

## Inventory

**Pilsen does not take a physical inventory of its assets on a regular basis.**

Pilsen does not take physical inventory of its assets on a regular basis. Some of these assets were purchased with State funds, which could lead to a loss of State property. Pilsen's Financial Procedures Manual requires that a physical count of all fixed assets be taken at least annually.

We also found inconsistencies in the tagging of assets. For example, some computers and monitors were tagged while others were not. Pilsen's Financial Procedures Manual requires that items over $500 be immediately tagged and inventoried. While Pilsen's Financial Procedures Manual does not require items less than $500 to be tagged and inventoried, Pilsen is still responsible for maintaining internal control records for these items. This is especially important for items susceptible to theft such as computers and monitors. (pages 29-31)

## Vehicles

Pilsen did not maintain an accurate listing of its vehicles and had difficulty providing a list of vehicles when requested. Pilsen's vehicle fleet consisted of nine vehicles during fiscal years 2004 – 2006. An examination of Pilsen's property and equipment listings showed only five of the nine vehicles were included as assets.

Pilsen uses credit cards for fuel purchases and receives a detailed billing on a monthly basis. A list of authorized drivers that was provided was not consistent with the names on the fuel purchasing invoices. Pilsen also had other problems with fuel purchases, including lack of receipts and questionable odometer readings.

- Some receipts for gas purchases were provided, but many were missing.
- One vehicle had two fuel purchases on the same day but the odometer reading was the same for both purchases. For the next fuel purchase for this vehicle, four days later, the odometer reading was not entered.

We also noted questionable expenses related to the vehicle assigned to the Executive Director. An examination of maintenance invoices and credit card receipts showed $803 in billings for detailed car washes. Pilsen's policies did not include information on the proper use of vehicle credit cards, logging the use of the vehicle, and providing receipts for amounts purchased. The procedures also did not address if other costs, such as detailed car washes, are permissible. (pages 31-33)

### Single Bid Construction Contracts

Pilsen did not utilize competitive bidding for any of the six construction contracts, totaling $170,100, in our expenditure sample. Pilsen's Financial Procedures Manual states that **a minimum of two bids shall be obtained** when procuring major maintenance or capital expense items. Three of the contracts were with the same vendor.

**Pilsen did not utilize competitive bidding for any of the six construction contracts, totaling $170,100, in our expenditure sample.**

Pilsen said that only one bid was obtained for each of the six contracts and cited an exception to its competitive bidding policies. The exception is allowed when it is determined that the goods or services to be obtained are both unusual in nature and time is of the essence; or when they have determined an individual source procurement is in the best interest of the organization, with cost being a secondary factor. No documentation was found in the files showing approval for using the exception to the competitive bidding requirement or any justification for obtaining only one bid. (pages 34-36)

### Expenditure Approval Process

Pilsen uses a Check Request form that must be completed for all expenditures. The check request contains sections to identify the check requester, program supervisor approval, business office approval, and check issuer. Seventy-seven percent (168 of 217) of check requests reviewed did not have supervisor approval. For check requests that did have supervisor approval, the person signing under supervisor approval was the same as the person requesting the check in 41 percent (20 of 49) of the cases.

Pilsen's Financial Procedures Manual specifies that the Board Treasurer "…should review all paid disbursements, including cancelled vouchers subsequent to month end." Most check requests we reviewed were not initialed by a Board member indicating the expenditure had been reviewed. Only 13 percent (29 of 217) were initialed by a Board member and in only 4 percent (8 of 217) was the reviewer the Board Treasurer. Pilsen officials stated that the review process does not require initialing each check request but instead entails reviewing the monthly financial statements. Pilsen's Financial Procedures Manual should be more specific as to the type of review required. (pages 36-37)

### Cell Phone Usage

**Cell phone charges included excessive roaming charges ($3,067 in roaming charges for two sampled expenditures) for the Executive Director's cell phone while the Executive Director was out of the country.**

Pilsen incurred a total of $24,763 in cell phone charges during fiscal years 2005 – 2006. These charges included excessive roaming charges ($3,067 in roaming charges for two sampled expenditures) for the Executive Director's cell phone while the Executive Director was out of the country. Of the $24,763 in charges, $21,142 (85%) was charged to Pilsen's programs including State-funded programs.

Pilsen's Financial Procedures Manual establishes policies for cell phone usage and states that only six cell phones have been authorized. However, Pilsen had 15 cell phones with three different providers: 9 phones with one provider, 5 phones with a second provider, and the Executive Director's cell phone was through a third provider. Cell phone bills sampled during expenditure testing showed 6 of the 15 cell phones with no usage during the sampled billing period and 2 additional phones with limited usage. (pages 38-39)

### Property Taxes

**During fiscal years 2005 and 2006, Pilsen paid over $30,000 in property taxes.**

During fiscal years 2005 and 2006, Pilsen paid over $30,000 in property taxes. Pilsen operates as a not-for-profit corporation and qualifies for an exemption from property taxes. Over $18,000 was charged primarily to State-funded programs either as a direct cost or through the cost allocation plan. Subsequent to paying the property taxes, Pilsen obtained tax exempt status for two properties. After the completion of our fieldwork, Pilsen received a refund in November 2007 for $16,661 of the property taxes paid. Our previous audit of Pilsen, released in August 1999, also found that Pilsen was paying property taxes for which it was not responsible.

During fiscal years 2005 – 2006, Pilsen paid property taxes at three locations in the Chicago area and also in Lee County for a lot donated to the organization (see Digest Exhibit 2).

The Stone Park Facility was acquired by Pilsen on March 26, 2003 but tax exempt status was not obtained until March 2005. Pilsen paid $12,202 in property taxes in November 2004. On November 23, 2007, Pilsen received a refund totaling $11,085 of the $12,202 in property taxes paid in fiscal year 2005.

The TOYS (Therapeutic Outpatient Youth and Family Services) program facility was acquired by Pilsen on April 22, 2004. Pilsen paid property taxes of $5,308 in fiscal year 2005 and $11,418 in property taxes in fiscal year 2006. Pilsen also paid a late penalty of $319 in fiscal year 2005 because the payment, due March 1, 2005, was not made until June 21, 2005. Property taxes were charged directly to the TOYS program

Digest Exhibit 2
**PROPERTY TAXES PAID BY PILSEN**
Fiscal Years 2005-2006

| Facility | Facility Address | Property Taxes Paid in FY05 | Property Taxes Paid in FY06 | Total |
|---|---|---|---|---|
| Stone Park – Methadone Treatment Facility | 1546 N. Mannheim Road – Stone Park, IL | $12,202[1] | - | $12,202 |
| TOYS Program | 1407 S. 49th Court – Cicero, IL | $5,308 | $11,418[2] | $16,726 |
| Donated Lots – Chicago and Woodhaven Lakes | 2838 W. 21st St. – Chicago, IL and Sublet, IL | $669 | $769 | $1,438 |
| | **Total:** | **$18,179** | **$12,187** | **$30,366** |

Notes: [1]On November 23, 2007, Pilsen received a refund totaling $11,085 of the $12,202 in property taxes paid in fiscal year 2005.

[2]On November 28, 2007, Pilsen received a refund totaling $5,575 of the $11,418 in property taxes paid in fiscal year 2006.

Source: OAG summary of Pilsen property tax information.

which is a State-funded program. Despite repeated requests, Pilsen was unable to provide information on the status of the tax exempt application for this property. Finally, in December 2007, during the exit process to review the draft report, Pilsen provided additional information for this property. Information showed that tax exempt status was obtained in July 2006. On November 28, 2007, Pilsen received a refund totaling $5,575 of the $11,418 in property taxes paid in fiscal year 2006. Pilsen did not provide information on the status of refunds for the taxes paid in fiscal year 2005 or the remainder of taxes paid in fiscal year 2006.

The Woodhaven Lakes lot was donated to Pilsen by a former program participant. The property at 2838 W. 21st St. is also a donated lot. Pilsen officials stated that since the lot is not in active use, it is not eligible for tax exempt status.

Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations, allows payment of taxes by non-profit organizations except in cases where exemptions are available to the organization. Pilsen management was not timely in filing for their exemptions and ended up paying taxes for which they were not responsible. (pages 40-41)

## Related Party Transactions

During our review at Pilsen, we noted related party transactions involving Pilsen and Pilsen's newest Board member. Pilsen entered into a lease agreement on December 16, 2005, effective January 1, 2006, to move the Latino Youth Alternative High School from 2200 S. Marshall to a new location at 2001 S. California Ave. in Chicago.

At its January 26, 2006 Board meeting, Pilsen's Board of Directors nominated and named a new member. The new Board member was a 30 percent owner in the newly leased property at 2001 S. California. It was also noted in the Board meeting minutes that, prior to being named to the Board, the new Board member made a $125,000 donation to Pilsen when the original lease for the property at 2001 S. California was signed. When auditors requested documentation of the $125,000 donation, Pilsen officials stated that the donation was actually for $104,000 and provided copies of two checks totaling that amount. The checks were made out to Pilsen but were credited to accounts for the Latino Youth Alternative High School.

Prior to becoming a Board member, the new Board member also offered to purchase the old Latino Youth building at 2200 S. Marshall for $1.15 million. The old Latino Youth building was sold on June 1, 2006 for $1.15 million. The new Board member signed the closing documents as the manager for the corporation that purchased the property. At the time of the sale, Pilsen had assumed control of the management of the Latino Youth Alternative High School.

**We noted related party transactions that involved Pilsen and Pilsen's newest Board member including the purchase of property for $6.4 million.**

On August 11, 2006, Pilsen's Board held an "emergency" meeting to consider the purchase of the newly leased property at 2001 S. California. The Board voted to purchase the property with the new Board member abstaining from the vote. Two weeks later, on August 25, 2006, the newly leased property at 2001 S. California was purchased for $6.4 million, not by Pilsen but by the Pilsen Little Village Community Management Organization. This new organization was incorporated as a 501(c)(2) corporation on August 24, 2006, one day prior to purchasing the property.

Although a separate organization was created to purchase the property, the purchase is still a related party transaction. The new organization has a separate Board of Directors but the Executive Director of the new organization is also the Executive Director at Pilsen. The Executive Director signed the closing documents for the new organization when the property at 2001 S. California was purchased. In addition, the address for the new organization is listed as 2319 S. Damen Avenue, which is the address for the administrative offices for Pilsen. The Articles of Incorporation of the new organization also state that, upon dissolution, all assets shall be distributed to Pilsen.

Digest Exhibit 3
**TIMELINE OF RELATED PARTY TRANSACTIONS**

| Date | Description |
|---|---|
| July 2005 | Pilsen assumes control of Latino Youth Alternative High School (LYAHS). |
| October 27, 2005 | Board meeting minutes indicate that LYAHS building, located at 2200 S. Marshall, has been cited for a number of building code violations and needs to be vacated by December 17, 2005. |
| December 16, 2005 | Pilsen enters into a lease agreement to move LYAHS to a new location at 2001 S. California. |
| January 2006 | LYAHS moves to newly leased location at 2001 S. California. |
| January 26, 2006 | Pilsen Board nominates and approves a new Board member. |
| May 4, 2006 | Board meeting minutes state that the new Board member, prior to becoming a Board member, offered to purchase old LYAHS building at 2200 S. Marshall for $1.15 million. |
| June 1, 2006 | Old LYAHS building sold for $1.15 million. New Board member signs closing document as manager for corporation that purchased the building. |
| June 22, 2006 | Board meeting minutes indicate that Board discusses purchasing newly leased property at 2001 S. California and disclose that new Board member is a 30 percent owner of the property. |
| August 11, 2006 | Board holds “emergency” meeting to consider purchase of leased property at 2001 S. California. Minutes disclose that new Board member made a $125,000 donation (the amount Pilsen could document actually totaled $104,000) to Pilsen when original lease was signed. Board authorizes purchase with new Board member abstaining from vote. |
| August 24, 2006 | New organization, the Pilsen Little Village Community Management Organization, is formed. The Executive Director at Pilsen is also the Executive Director for the new organization. |
| August 25, 2006 | The Pilsen Little Village Community Management Organization purchases leased property at 2001 S. California for $6.4 million. New Board member is listed in the Purchase and Sale Agreement as the Seller’s Representative. The Executive Director at Pilsen signs the closing agreement on behalf of the Pilsen Little Village Community Management Organization. |
| August 30, 2006 | The Pilsen Little Village Community Management Organization enters into a junior mortgage agreement for $550,000 with an agent whose address was listed in care of the new Board member. The Executive Director at Pilsen signs the mortgage agreement on behalf of the Pilsen Little Village Community Management Organization. |

Source: OAG analysis of Board meeting minutes, lease documents, and closing documents.

In the Purchase and Sale Agreement, the new Board member was listed as the Seller's Representative. In addition, the Pilsen Little Village Community Management Organization entered into a junior mortgage agreement for $550,000 with an agent whose address was listed in care of the new Board member. The Executive Director at Pilsen signed this mortgage agreement on behalf of the Pilsen Little Village Community Management Organization. This mortgage was in addition to the primary financing for the purchase which was with a separate entity for $5.85 million. Digest Exhibit 3 shows the timeline for the related party transactions.

Statement of Financial Accounting Standards No. 57 states that financial statements should include disclosures of material related party transactions. The disclosures should include the nature of the relationship along with a description and dollar amount of the transaction. Pilsen's fiscal year 2006 Financial Statements did not disclose related party information regarding the lease agreement for the building at 2001 S. California or for the sale of the old Latino Youth building at 2200 S. Marshall, both of which occurred in fiscal year 2006. The purchase of the property at 2001 S. California occurred in fiscal year 2007. (pages 42-47)

### Corporate Credit Card and Other Fees

**In our sample review of agency expenditures, 36 percent did not have required receipts.**

We sampled nine expenditures for the corporate credit card. These nine credit card statements contained 42 purchases of $50 or more that required a receipt, pursuant to Pilsen's financial procedures. Of these 42 purchases, 15 (36%) did not have the required receipts. For example, one expense for $374.84 at a local restaurant lacked a receipt. Another expense for $496.67 for an airline ticket also lacked a receipt.

Receipts that were submitted often lacked detail to be able to determine exactly what was purchased, the purpose of the meal, or who attended. For example, many of the purchases were at restaurants or other food establishments. Often the receipt would show only the total amount and not an itemized listing of the meals or food purchased. Because of this, we were unable to determine the legitimacy of these purchases. (pages 47-49)

### Out-Of-State Travel

**Two out-of-state travel expenditures, totaling $1,068, lacked supporting documentation.**

We reviewed 17 expenditures, totaling $9,613, that involved out-of-state travel. These included travel to Mexico, California, Florida, Georgia, Arizona, and Washington, DC. Travel expenses included airfare, hotel, and per diem. We noted:

- Two of the expenditures totaling $1,068, lacked supporting documentation. One was airfare for a trip to Mexico and had no supporting documentation other than the check request form. The other expenditure was a hotel stay for a conference in Orlando. The hotel was prepaid but lacked a receipt from the actual stay.

- For two expenditures, the check request form noted that Pilsen was to be reimbursed for the expense, however, in both cases, the reimbursement did not occur. The amounts to be reimbursed totaled $1,187. (pages 49-50)

**Tuition Reimbursement**

Pilsen lacks a tuition reimbursement policy that could outline the procedures and conditions for having tuition reimbursed and the documentation required to verify the course was completed. We reviewed three expenditures that involved reimbursement of tuition for Pilsen employees. Two of the expenditures sampled, totaling $4,900, were for tuition payments for the Executive Director's doctorate degree. Expenditure files did not contain documentation verifying actual attendance or successful completion of the courses taken. The expenditures were billed to Unallocated Administration, which is not allocated to State-funded programs. (pages 50-51)

**Gratuities and Sales Tax**

Pilsen paid gratuities that were charged to State-funded programs. Administrative rules for the Department of Human Services (89 Ill. Adm. Code 509.20(b)(19)) specifically prohibit gratuities as a reimbursable expense unless prior written authorization is received. Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations, also states that gratuities are unallowable.

In 13 expenditure files reviewed that involved the payment of gratuities, there were 36 instances, totaling $581.04, where gratuities were paid by Pilsen. Gratuities paid from our sample of expenditures were likely even higher as expenditure files often were missing receipts or lacked detail to determine if gratuities were paid. Also, in the expenditure files reviewed, we noted instances where Pilsen paid sales tax. As a result of their nonprofit status, Pilsen qualifies for sales tax exemptions. (pages 51-52)

**Written Agreements for Consulting Work**

Pilsen utilizes consultants or outside contractors to perform a number of functions. In our review of agency expenditures, we noted four expenditures totaling $7,463 for consultants that either lacked written agreements or the agreement lacked detail for the work to be performed.

In three expenditures, there was no written agreement outlining the work to be performed or delineating the payment terms. A fourth expenditure had a consulting contract but the agreement lacked detail for the work to be performed. The one-page contract specified payments of \$2,500 per month for a one year period. The agreement stated that the vendor was "…to provide public relations and consulting services for Pilsen Little Village Community Mental Health Center and its various entities." The agreement provided no further detail on the services to be provided. (pages 52-53)

### Deficit Programs

Some of the programs at Pilsen operated at a deficit; they incurred more expenses than the revenue received to operate the programs. As a result, the programs with a surplus, including State-funded programs, supported these deficit programs. The most profitable programs, such as the Pilsen Inn, were primarily State-funded programs. Overall, Pilsen operated at a deficit of \$33,229 in fiscal year 2005. An expense analysis, provided by Pilsen, showed that expenses were charged to 22 cost centers. Of these 22, 9 operated with a surplus while 13 operated at a deficit. In fiscal year 2006, Pilsen operated at a deficit of \$2,747. An expense analysis showed expenses were charged to 32 cost centers. Of these 32, 12 operated with a surplus while 20 operated at a deficit. For programs operating at a deficit, the source of funds used to cover the deficit is unclear. (pages 55-56)

## AUDIT RECOMMENDATIONS

The audit report contains 19 recommendations. Sixteen recommendations are directed at Pilsen, one at the Department of Public Health, one at the Illinois State Board of Education, and one at all of the funding agencies. Pilsen disagreed with one recommendation and generally agreed with the remaining recommendations. The funding agencies generally agreed with the recommendations. Appendix E of the audit report contains the complete responses.

WILLIAM G. HOLLAND
Auditor General

WGH\DJB
February 2008