STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AUDIT

PILSEN-LITTLE VILLAGE COMMUNITY MENTAL HEALTH CENTER, INC.

AUGUST 1999

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To the Legislative Audit Commission, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, the members of the General Assembly, and the Governor:

This is our report of the Management Audit of the Pilsen-Little Village Community Mental Health Center, Inc.

The audit was conducted pursuant to House Resolution Number 385, which was adopted May 20, 1998. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
August 1999

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REPORT DIGEST

Management Audit of

PILSEN-LITTLE VILLAGE COMMUNITY MENTAL HEALTH CENTER, INC.

Released: August 1999

State of Illinois
Office of the Auditor General

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SYNOPSIS

House Resolution Number 385 directed the Auditor General to conduct an audit of Pilsen-Little Village Community Mental Health Center, Inc. to determine whether funds received by Pilsen have been spent according to applicable State law, regulations, contracts, and grants. While State agencies have conducted reviews of Pilsen's operations, none have conducted a detailed review of Pilsen's expenditures, as we were directed to do pursuant to House Resolution Number 385.

Our audit identified findings that ranged from a lack of supporting documentation, to non-compliance, to unauthorized use of grant funds. The pervasiveness of problems raises the possibility that there may be additional areas of non-compliance. We recommended the Board of Directors examine its level of control over Pilsen operations and that the funding State agencies follow up on this audit's findings. Specifically, we found:

- $31,000 in business expense reimbursements to Pilsen administrators lacked documentation to support the expenditure or were misclassified.
- $11,400 in travel expenses were questioned due to the unsubstantiated necessity of the travel or payments made for unallowable costs.
- Overcharges of $108,000 in indirect costs to State-funded programs.
- $800 in political contributions which are prohibited by IRS regulations for 501(c)(3) organizations.
- $57,000 in property taxes charged primarily to State-funded programs, even though Pilsen was exempt from paying property taxes.
- Pilsen paid $78,733 in bonuses in Calendar Years 1996 and 1997, of which $21,000 was misclassified as Office Expense and not reported as income on employee W-2 forms.
- Various payroll findings, including over allocation of salaries and allocation of a non-employee pension plan to State funded programs, and a lack of documentation to support contractual wages.

Finally, we found that Pilsen purchased and leased buildings from an entity for which Pilsen's Chief Executive Officer performed business functions, which may constitute related party transactions. The Office of Attorney General will be reviewing these real estate transactions.

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 91 percent of its grant funding from the State in Fiscal Year 1998, primarily from the Department of Human Services. Pilsen also received funding from the Departments of Children and Family Services and Public Aid.

State agencies have conducted reviews of Pilsen's operations over the past three years, including reviews of audited financial statements and on-site visits to examine case files. However, none of the agencies have conducted a detailed review of Pilsen's expenditures, as we were directed to do pursuant to House Resolution Number 385.

Our audit identified expenditures which were inappropriately charged to State programs. We also found that documentation to support many of the expenditures sampled was lacking information on the amount, date, place, and essential character of the expense.

Specific findings noted in this audit were:

- Over $57,000 in property taxes paid on Pilsen-owned buildings were charged primarily to State-funded programs in Fiscal Years 1997 and 1998. Pilsen has been exempt from paying property taxes since 1995.

- Pilsen's inconsistent allocation of indirect costs resulted in overcharges to State-funded programs totaling almost $108,000 during Fiscal Years 1997 and 1998.

- Pilsen made $800 in political contributions and failed to disclose the contributions on its federal Internal Revenue Service (IRS) return. As a 501(c)(3) not-for-profit organization, IRS regulations prohibit such organizations from making political contributions.

- Pilsen's payroll administration was the subject of numerous findings. The allocation of salaries was not consistently applied to both State and non-State-funded programs resulting in State-funded programs being overcharged payroll expenses. Pilsen paid over $16,000 in wages to an employee who was apparently on unauthorized absence. An undetected error in processing the payroll resulted in a contractual psychiatrist receiving both a payroll check and a contractual services check. Further, 31 percent of our sample of instances where employees were away from work on agency business lacked proper support. Finally, we found that Pilsen classified nearly $21,000 in bonuses as Office Expense and did not report it on employee W-2 forms as income.

- Almost $31,000 in business expense reimbursements to Pilsen administrators were questioned due to a misclassification of expenses or a lack of documentation to support the expenditure.

- Nearly $11,400 in travel expenditures were questioned due to unsubstantiated necessity of the travel or payments made for unallowable costs. Additionally, we questioned the appropriateness of expenditures for a cellular telephone account ($8,232) and recreation and crafts ($4,063.50).

- Cash management practices need to be strengthened. Pilsen regularly made payments to employees who then paid vendors for goods and services, which is contrary to State guidelines. Lack of support, including receipts dated ten months after a check was issued to an employee, caused us to question $12,532. Also, the agency granted a $15,000 interest free loan to an employee. The employee repaid the loan and then issued himself a $17,500 bonus four days after repayment.

- Pilsen has not performed a physical inventory of all its property and equipment, some purchased with State funds. Without maintaining an accurate inventory of all its property and equipment, Pilsen is not in a position to exercise adequate control over its equipment to prevent its loss from abuse or misappropriation.

- Pilsen purchased and leased buildings from an entity with which Pilsen's Chief Executive Officer served as President or Trustee. If such relationships constitute related party transactions, they need to be disclosed in Pilsen's financial statements, as required by auditing standards. The Office of Attorney General will be reviewing these real estate transactions.

In light of the above findings, we recommended that the Departments of Human Services, Public Aid, and Children and Family Services follow up on these findings and determine whether State funds should be recovered.

BACKGROUND

Pilsen-Little Village Community Mental Health Center (Pilsen), located in Chicago, Illinois, is incorporated as a not-for-profit organization. The primary purpose of Pilsen is to facilitate comprehensive social and mental health services to the primarily Hispanic community of Pilsen-Little Village and the Chicago Metropolitan area at large.

Pilsen is organized as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Pilsen is overseen by a Board of Directors and managed by three executive officers: the Chief Executive Officer, who has been with Pilsen since 1969; the Chief Program Officer; and the Chief Fiscal Officer, who left the agency toward the end of Fiscal Year 1998.

During Fiscal Year 1998 Pilsen received over $4 million from various sources, including almost $3 million in grants, $676,000 in fees for services rendered, and $402,000 from other sources, including contributed goods and services. Funding from State agencies (the Departments of Human Services, Children and Family Services, and Public Aid), totaling $3.1 million, comprised 85 percent of Pilsen's total grant and fee for service funding in Fiscal Year 1998.

State agencies have conducted reviews of Pilsen's operations over the past three years, including reviews of audited financial statements and on-site visits to examine case files. However, none of the agencies have conducted a detailed review of Pilsen's expenditures, as we were directed to do pursuant to House Resolution Number 385. (See report pages 2-9)

QUESTIONABLE EXPENDITURE OF FUNDS

Our audit identified expenditures which appeared to be inappropriately charged to State programs. We also found that documentation to support many of the expenditures sampled was lacking information on the amount, date, place, and essential character of the expense.

During the two years examined in this audit, Pilsen paid over $57,000 in property taxes for which it was exempt.

PROPERTY TAXES

During the two years examined in this audit, Pilsen paid over $57,000 in property taxes for which it was exempt. The $57,000 was charged primarily to State-funded programs either as a direct cost of occupancy or as administrative overhead through the cost allocation plan.

Illinois Department of Revenue documentation confirmed that Pilsen has had an exemption for property taxes. Pilsen management was not timely in filing for their exemption and ended up paying taxes for which they were not responsible. Pilsen has filed for a refund. However, they have continued to pay property taxes during the legal process. (See report pages 12-13)

COST ALLOCATION PLAN FOR INDIRECT COSTS

Pilsen overcharged State funded programs $108,000 because all sources of program funds were not consistently allocated administrative overhead.

Pilsen overcharged State-funded programs $108,000 because all sources of program funds were not consistently allocated administrative overhead. Rather, some of Pilsen's contracts limited the amount of indirect costs which could be charged to them; consequently, Pilsen shifted to other programs, including State-funded programs, the costs which exceeded the contracts' maximum amount. This cost allocation method was not consistent or in compliance with State and federal regulations.

State rules allow for the allocation of expenses that are not readily identifiable to a specific program. However, the expenses must be allocated to all program services, both State-funded and non-State funded. During Fiscal Years 1997 and 1998 Pilsen had 15 programs over which to spread the indirect costs (also known as Management and General Expenses). The State funded 11 of these 15 programs. (See report pages 13-14)

BONUSES

In calendar years 1996 and 1997, Pilsen provided bonuses to employees totaling $78,733.29: $38,451 in 1997 and $40,282.29 in 1996. The 1997 bonuses are detailed in Digest Exhibit 1. As the Exhibit shows, the Chief Executive Officer (CEO) received a $17,500 bonus, which was the largest granted in 1997.

Pilsen provided 97 employee bonuses totaling $20,951 which were not reported on the employees' W-2 forms.

In December 1997, Pilsen provided 97 employee bonuses totaling $20,951 which were misclassified as Office Expense and not reported on the employees' W-2 forms. Not reporting this income on the employees' W-2 forms places the employees at risk for their personal taxes. The bonuses ranged from $25 up to $1,000 with an average bonus of $216.

Digest Exhibit 1
BONUSES BY PROGRAM AREA
Calendar Year 1997

Program Area	Number of Staff Paid Bonuses	Total Bonuses Paid	Average Bonus
Executive Staff-CEO	1	$17,500.00	$17,500.00
Executive Staff-CFO	0	$0.00	$0.00
Executive Staff-CPO	0	$0.00	$0.00
Administration	7	*$4,360.00	$622.86
Emergency Psychiatric	1	*$540.00	$540.00
Comprehensive Prevention	1	*$520.00	$520.00
Outpatient Mental Health	14	*$4,271.00	$305.07
Family Systems Program	3	*$845.00	$281.67
HIV/AIDS	8	*$1,900.00	$237.50
Vocational Rehab Center	5	*$1,050.00	$210.00
CILA	21	*$3,275.00	$155.95
DUI	2	*$305.00	$152.50
Pilsen Inn	9	*$1,200.00	$133.33
Door-to-Door (SLIAG)	2	*$225.00	$112.50
Methadone Treatment	19	*$1,965.00	$103.42
Alcoholism Outpatient	2	*$205.00	$102.50
MI/SA	3	*$290.00	$96.67
Total	98	$38,451.00	$392.36

* These were December 1997 bonuses totaling $20,951 that were not reported on employee W-2 forms.
Source: OAG Summary of Pilsen documentation

Pilsen's policies do not require the Board to review and approve bonuses. Consistent with its fiduciary responsibilities, Board review and approval of bonuses would help ensure that bonuses complied with legal requirements and were properly expensed. (See report pages 14-16)

Political contributions made by Pilsen during Fiscal Year 1997 could jeopardize its tax-exempt status as a not-for-profit.

POLITICAL CONTRIBUTIONS

Political contributions made by Pilsen during Fiscal Year 1997 could jeopardize its tax-exempt status as a not-for-profit. Two payments totaling $800, were made to a political campaign fund and not reported on Pilsen's federal tax return.

Pilsen is organized as a not-for-profit under Section 501(c)(3) of the Internal Revenue Code. As such, Internal Revenue Service regulations prohibit such organizations from making political contributions. These political contributions were paid from an expense classification which was not allocated to State-funded programs. (See report page 16)

PAYROLL

We noted several concerns regarding Pilsen's payroll administration. These included:

- $176,000 in salaries for the Chief Program Officer and four maintenance positions which were charged primarily to State-funded programs when they provided services to all Pilsen programs;
- $24,000 in a specially developed retirement plan for one former employee which was allocated to all programs, including State-funded programs. Since this employee was not currently working for Pilsen and, therefore, the State derived no benefit from these payments, charging this expense to State-funded programs was questionable; and
- $16,000 in salary to a full-time maintenance employee who had inconclusive documentation to support the wages paid. (See report pages 17-20)

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) received reimbursement for expenses without adequate documentation to support the necessity of the expenditure.

REIMBURSEMENT OF ADMINISTRATORS' EXPENSES

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) received reimbursement for expenses without adequate documentation to support the necessity of the expenditure. During Fiscal Years 1997 and 1998, these reimbursements totaled almost $31,000.

During the audit period, Pilsen's CEO was reimbursed $26,632 for 690 business expenditures. The expenses were combined into three categories: Food and Beverage, Automobile, and Other. Digest Exhibit 2 summarizes the groupings.

Digest Exhibit 2 CEO REIMBURSEMENTS Fiscal Years 1997-1998		
Type of Expense	**Number of Occurrences**	**Amount**
Food and Beverage	271	$12,876
Automobile	308	$4,836
Other	111	$8,920
Total	690	$26,632
Source: OAG Summary of Pilsen documentation		

Food and Beverage is not an allocated expense under the Pilsen indirect cost allocation plan. Consequently, it is not charged as an expenditure to State-funded programs. However, during Fiscal Years 1997-1998, 25 percent (68 of 271) of food and beverage purchases reviewed totaling $3,302 were charged as Office Expense and allocated among the various costs centers, including State-funded programs. Non-client meals are generally not reimbursable expenses per the Illinois Administrative Code (77 Ill. Adm. Code 2030.360 (k)). Documentation on food and beverage purchases generally lacked business purpose to evaluate the expense as allowable.

Automobile expense is an indirect expense for the administration division at Pilsen that is allocated among the various cost centers, including State-funded programs. The Pilsen Board of Directors provided the CEO a conversion van for business and personal use. Logs were not maintained for the expenditures incurred by the CEO for this vehicle. However, 308 expenditures totaling over $4,800 were reimbursed to the CEO during the audit period.

Gasoline and parking receipts were submitted without documentation specifying the vehicle that incurred the expense. Auditors could not determine whether expenses reimbursed to the CEO were for the agency provided vehicle or other vehicles. For example, it was noted that:

⇒ Gasoline was purchased within 2 or fewer days on 43 occasions.
⇒ In 28 of those 43 purchases the duration was 1 calendar day or less.
⇒ In 7 instances, multiple gasoline purchases were made on the same day. In one such occurrence, gas was purchased from the same station within a five-minute period.
⇒ The same gasoline receipt dated October 11, 1996, was submitted for reimbursement on 2 different occasions.

Also, when an employer-provided vehicle is used for personal purposes, the employer is required to report this use to the Internal Revenue Service as additional income on the employee's W-2. Personal use includes commuting to and from one's work and any other use that is non-business related. We could not find evidence that Pilsen had reported usage of the van in tax year 1997 as additional income for the CEO.

We could not find evidence that Pilsen had reported usage of the van in tax year 1997 as additional income for the CEO.

Pilsen reimbursed the CEO for $8,920 in Other expenditures during the audit period that also lacked adequate documentation as to the business purpose/necessity of the expense. Similarly, $4,157 in reimbursements made to the former CFO lacked necessary documentation to support reimbursement as an allowable expense. These indirect expenses for the administration division at Pilsen were then allocated among the various cost centers, including State-funded programs. (See report pages 22-24)

EMPLOYEE LOAN

Pilsen issued the CEO a $15,000 interest free loan in December 1996 that was processed as a pay advance.

Pilsen issued the CEO a $15,000 interest free loan in December 1996 that was processed as a pay advance. Documentation to support the payment consisted of a memo from the CEO to the Pilsen Board Chairperson requesting the loan. The memo makes no mention of an interest rate on loaned funds but does indicate that it would be paid back by the end of the fiscal year. Pilsen could not provide documentation to show that the Board had approved this loan.

The CEO repaid $15,500 (the extra $500 at the time of the payback was denoted as additional federal taxes) on June 26, 1997, and then issued himself a $17,500 bonus on June 30, 1997. The $17,500 bonus was a payroll expense that was allocated as an indirect cost to all programs, including State-funded programs. Pilsen Board of Directors meeting minutes include no indication of an approval for the bonus. Financial management requirements imposed on Pilsen as a recipient of grant funding does not allow award funds or program income to be used for employee salary advances or employee loans (77 Ill. Adm. Code 2030.610 (j)). Pilsen's own Financial Procedures Manual for Expenditure and Management of Funds states that "the organization is not a financial institution like a bank or credit union and, as a result, cannot loan money over an extended period of time." (See report page 26)

QUESTIONABLE TRAVEL EXPENDITURES

Over a two year period, we identified $11,383 in questionable travel expenditures.

Over a two year period, we identified $11,383 in questionable travel expenditures. While Pilsen had a travel policy in place, it was not always followed. Instances such as not documenting conference attendance, not including the business necessity of a trip, or obtaining reimbursement for unallowable expenses demonstrates a lack of control and violation of State and federal rules and Pilsen's own Financial Procedures Manual.

For example, nearly $4,600 in travel expenses were charged to State-funded programs through the allocation of administrative costs for a conference in Puerto Rico from June 10th through the 13th of 1998. DHS rules require that the agencies receive prior approval for staff to attend meetings or conferences 250 miles outside of Illinois - Pilsen did not receive an approval from the State for the conference in Puerto Rico (77 Ill. Adm. Code 2030.350 (d)). Questionable expenditures found for the trip included alcohol, gratuities, and a banquet. (See report pages 28-29)

RELATED PARTY TRANSACTIONS

In our review of the agency's expenditures, we identified a potential related party transaction between Pilsen and the Alliance for the Development of Latino Communities—an organization that leased and sold properties to Pilsen. Statements on Auditing Standards (SAS No. 45) define a related party to include:

We identified a potential related party transaction between Pilsen and the Alliance for the Development of Latino Communities - an organization that leased and sold properties to Pilsen.

> *Affiliates of the enterprise. . .its management. . .and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests....*

Financial statements should include disclosures of material related party transactions. The disclosure should include the nature of the relationship along with a description and dollar amount of the transaction. We noted that Pilsen financial statements and their management representation letter to the external auditor did not disclose any related party transactions.

Within the past four years, Pilsen has leased or purchased numerous buildings from the Alliance for the Development of Latino Communities (Alliance). In Fiscal Year 1996, Pilsen leased 7 of the 10 properties they used from the Alliance. As of June 30, 1998, Pilsen continued to lease one building from the Alliance. Pilsen has also purchased three of the leased facilities from the Alliance.

In November 1995, Pilsen purchased three properties from the Alliance for a total purchase price of $470,000. Financing for the purchase was provided from two sources: a $350,000 mortgage loan from a local bank and an additional mortgage with the Alliance for $125,360.26. Documentation showed that the Alliance had taken out mortgages in July 1995 to purchase the buildings sold to Pilsen four months later. Loan documentation shows the Pilsen CEO signing all the mortgage documents as either the Executive Director for the Alliance or Pilsen-Little Village Community Mental Health Center.

Pilsen's Chief Executive Officer conducts business on behalf of the Alliance.

Pilsen's Chief Executive Officer conducts business on behalf of the Alliance. The CEO stated he provides property management services free of charge to the Alliance. He added that these activities are conducted from his home. The CEO has check signing authority for the Alliance, with Alliance checks being co-signed by the CEO's former office manager at Pilsen. The FY97 Alliance Charitable Organization Supplement filing has the Pilsen CEO signing as the President or Trustee of the Alliance with another Pilsen employee listed as the registered agent. Also, on some documents, the Alliance address is the same as Pilsen's administrative facilities.

We requested federal informational return filings from the Attorney General's Office for all companies from which Pilsen leased property during the audit period, including the Alliance. Officials from the Attorney General's Charitable Trust Division reported that the Alliance had not filed required reports since 1996. The Attorney General's Office has since requested that the Alliance complete the required filings (the Alliance had submitted additional filings during our fieldwork). Further, since the Alliance had sold property during the non-filing period, officials from the Charitable Trust Division stated they would be reviewing the sales transactions.

The Office of the Attorney General will be reviewing the real estate transactions of the Alliance.

Given the extent of the real estate transactions between Pilsen and the Alliance, and Pilsen's CEO's involvement in Alliance transactions, disclosure of such relationships may be required in Pilsen's audited financial statements. Furthermore, given that the Office of the Attorney General will be reviewing the real estate transactions of the Alliance, we will share with the Attorney General documentation collected during this audit. (See report pages 32-34)

BOARD OF DIRECTORS

Corporate by-laws state that the Board of Directors is the governing body of the organization and is empowered to apply for and receive funds and is accountable for and assures the effective discharge of the planning and management functions of the agency.

The findings contained in this audit indicate that the Board needs to increase its oversight of Pilsen operations. To ensure that the members of the Board are fulfilling their mission and fiduciary responsibilities, the Board should improve formal systems for obtaining regular information on Pilsen's operations, including approving expenditures over a pre-determined amount and approving expenditures to executive level employees. (See report pages 34-35)

FOLLOW UP ON AUDIT FINDINGS

Pilsen received 91 percent of its grant funding from the State in Fiscal Year 1998. These grants come primarily from the Department of Human Services for Pilsen's two major programs (mental health and substance abuse) with an additional amount from the Department of Children and Family Services. The Department of Public Aid provides funds to Pilsen on a fee-for-service basis.

While State agencies have conducted reviews of Pilsen activities, none of the agencies have conducted a detailed review of Pilsen's expenditures, as we were directed pursuant to House Resolution Number 385. Given the findings in this audit, the State agencies that provide funding to Pilsen should follow-up on the findings and seek recovery of any inappropriately expended State funds. (See report pages 35-36)

RECOMMENDATIONS

The audit report contained 16 recommendations to Pilsen; Pilsen concurred with all of the recommendations. The report also contained a recommendation to the Departments of Human Services, Children and Family Services, and Public Aid to undertake an evaluation of Pilsen financial practices to determine if funds received from the State have been appropriately expended and to follow-up on and seek recovery of any inappropriately expended State funds. The

State agencies concurred with the recommendation. Agency responses are included after each recommendation and complete written responses are included in Appendix E of the audit report.

WILLIAM G. HOLLAND
Auditor General

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Chapter 1
INTRODUCTION AND BACKGROUND

On May 20, 1998 the Illinois House of Representatives adopted Resolution Number 385 directing the Auditor General to conduct an audit of the Pilsen-Little Village Community Mental Health Center, Inc. to determine whether funds received by the Center have been spent according to applicable State law, regulations, contracts, and grants. A copy of the Resolution is included in Appendix A.

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 91 percent of its grant funding from the State in 1998, primarily from the Department of Human Services. Pilsen also received funding from the Departments of Children and Family Services and Public Aid. State agencies have conducted reviews of Pilsen's operations over the past three years, including reviews of audited financial statements and on-site visits to examine case files. However, none of the agencies have conducted a detailed review of Pilsen's expenditures, as we were directed to do pursuant to House Resolution Number 385.

Our audit identified expenditures which were inappropriately charged to State programs. We also found that documentation to support many of the expenditures sampled was lacking including information on the amount, date, place, and essential character of the expense.

Specific findings noted in this audit are:

- Over $57,000 in property taxes paid on Pilsen-owned buildings were charged primarily to State-funded programs in Fiscal Years 1997 and 1998. Pilsen has been exempt from paying property taxes since 1995.

- Pilsen's inconsistent allocation of indirect costs resulted in overcharges to State-funded programs totaling almost $108,000 during Fiscal Years 1997 and 1998. The agency's allocation of indirect costs violated federal and State regulations and shifted a disproportionate share of indirect costs to State-funded programs.

- Pilsen made $800 in political contributions and failed to disclose the contributions on its federal Internal Revenue Service (IRS) return. As a 501(c)(3) not-for-profit organization, IRS regulations prohibit such organizations from making political contributions.

- Pilsen's payroll administration was the subject of numerous findings. The allocation of salaries was not consistently applied to both State and non State-funded programs resulting in State-funded programs being overcharged payroll expenses. Pilsen paid over $16,000 in wages to an employee who was apparently on unauthorized absence. An undetected error in processing the payroll resulted in a contractual psychiatrist receiving both a payroll check and a contractual services check. Further, 31 percent of our sample of instances where employees were away from work on agency business lacked proper support. Finally, we found that the agency classified nearly $21,000 in bonuses as Office Expense and failed to report it on employee W-2 forms as income.

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- Nearly $11,400 in travel expenditures were questioned due to unsubstantiated necessity of the travel or payments made for unallowable costs. Additionally, we questioned the appropriateness of expenditures for a cellular telephone account ($8,232) and recreation and crafts ($4,063.50).

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- Pilsen has not performed a physical inventory of all its property and equipment, some purchased with State funds. Without maintaining an accurate inventory of all its property and equipment, Pilsen is not in a position to exercise adequate control over its equipment to prevent its loss from abuse or misappropriation.

- Pilsen purchased and leased buildings from an entity with which Pilsen's Chief Executive Officer served as President or Trustee. If such relationships constitute related party transactions, they need to be disclosed in Pilsen's financial statements, as required by auditing standards.

In light of the above findings, we recommended that the Departments of Human Services, Public Aid, and Children and Family Services follow up on these findings and determine whether State funds should be recovered.

BACKGROUND

Pilsen-Little Village Community Mental Health Center, Inc. (Pilsen), located in Chicago, Illinois, was incorporated as a not-for-profit organization on June 6, 1975. Pilsen was an outgrowth of a federally funded program which began in 1967. The primary purpose of Pilsen, from its mission statement, is to facilitate comprehensive social and mental health services to the primarily Hispanic community of Pilsen-Little Village and to the Chicago Metropolitan area at large. Further, the mission dictates the use of all available resources to empower the individual using education and the acquisition of medical, social, and quality counseling services to lead toward the preservation of the family structure and help the individual lead a self-reliant life that fosters the prevention of emotional, mental, and physical disabilities.

Pilsen is a part of the Metro West Comprehensive Community Service Network (within the Illinois Department of Human Services) as defined by the Office of Mental Health. This Service Network was developed in November 1995 to provide a structure for managing the State funds budgeted for publicly financed mental health services. Pilsen is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

ORGANIZATION

The organization is overseen by a Board of Directors and managed by three executive officers (the Chief Fiscal Officer left the agency toward the end of Fiscal Year 1998). The Chief Executive Officer has been with the organization since 1969. Appendix D contains Pilsen's Charitable Organization Supplement filed with the Office of the Attorney General for Fiscal Year 1998. The supplement lists information such as revenue, expenditures and salaries.

Exhibit 1-1
PROGRAM SERVICES PROVIDED BY PILSEN DIVISIONS

MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION
Pilsen Inn Crisis Stabilization Residential: A 13 bed residential facility for the mentally ill.	Alcoholism Treatment: On an outpatient basis, provides treatment through education and counseling. Participants can be referred to self help groups like AA or ALANON.	FSP Safety Program: A program that promotes prevention through advocacy and empowerment.
Creative Arts Therapy: Use of art to identify emotional problems and solve them by creative expression.	D.U.I. Program: Offers 10 hours of remedial education classes in Spanish and English. The program also offers treatment services for Level II and III participants.	Youth Leadership: For ages 11-19 making use of Pilsen computer lab and recreation activities. Provides health education, tutoring assistance, stabilization, and development of youth leadership skills through mentoring.
Linkage: Provides education for Latino consumer projects.		
Community Integrated Living Arrangements: Geared to the seriously mentally ill. Focus is toward maintaining clients in the community.	Methadone Treatment: Provides rehabilitation services to heroin users by providing counseling and drug therapy.	Hands of Life Against AIDS: Comprehensive mix of services to those with or at risk of contracting AIDS.
Vocational Rehabilitation Center: For adults with disorders to learn new social and work skills in job training.	Mentally Ill/Substance Abuse: Program to service adults with a history of psychiatric disorders and substance abuse.	State Legalization Impact Assistance Grant: Provides health assessment and referral for immigrant Hispanic families.
Family Systems: Monitors DCFS referred child abuse cases.		

Source: OAG Summary of Pilsen Information

In addition to the administrative activities of running the program, services offered by Pilsen are organized into three divisions: Mental Health, Substance Abuse, and Prevention. The Mental Health Division provides mentally ill support with case management, individual and group therapy, and medication maintenance. The Program is Medicaid certified and uses a sliding fee scale. The programs (many of which have been accredited by the Commission on Accreditation of Rehabilitation Facilities) within the divisions are outlined in Exhibit 1-1.

The programs are provided at eight locations in the Pilsen-Little Village neighborhoods. Additionally, administrative offices are located at 2319 South Damen Avenue in Chicago. The total headcount of employees at Pilsen was 121 at June 30, 1998. The breakdown of position types was: 10 administrative employees, 98 counselors/program, 5 psychiatrists, and 8 maintenance. Pilsen also uses interns from the University of Illinois and Northeastern Illinois University to assist in program counseling sessions. Throughout Fiscal Year 1998, Pilsen experienced a staff turnover of 47 positions.

SUPPORT/REVENUE

During Fiscal Year 1998 Pilsen received over $4 million in various sources of total income—a decrease of $102,000 from Fiscal Year 1997. While grant funding remained fairly constant, the amount of billable fees for service sharply declined. Pilsen received nearly twice as much income from contributed goods and services in Fiscal Year 1998 ($328,943) as they did during Fiscal Year 1997 ($186,046).

Pilsen receives its grants and contract support from various federal and State agencies. Support received from those grants and contracts is recognized either on a pro rata basis over a 12 month period (which represents the service period for most contracts) or to the extent of the expenses. Pilsen also receives client fees, Medicaid income, and Medicare income for billable client services. The terms of the grants/contracts allow any of the granting agencies, at their discretion, to request reimbursement for expenses or return of funds, or both, as a result of non-compliance by Pilsen.

Exhibit 1-2
PILSEN GRANT FUNDING SOURCES
Fiscal Years 1997-1998

Source	FY98 Grant Level	FY97 Grant Level	% Increase or Decrease
DHS-OMH	$1,809,066	$1,773,952	1.98%
DHS-OASA	$785,486	$778,954	0.84%
DCFS *	$94,942	$149,305	-36.41%
Chicago Dept. of Health	$116,867	$41,298	182.98%
HHS-CDC	$20,715	$193,412	-89.29%
Emergency Food Program	$5,000	$0	
AIDS Foundation-Chicago	$120,592	$82,525	46.13%
COSSMHO	$10,510	$33,490	-68.62%
Total:	$2,963,178	$3,052,936	-2.94%

Note: * DCFS payments to Pilsen were paid from grant and award appropriations and reported in Pilsen financial statements as grants. However, DCFS now maintains these payments are fee-for-service arrangements.

Source: OAG Summary of Pilsen audited financial statements.

Grant Funding

Pilsen receives grant funding of approximately $3 million per year from eight different sources. Grants from State agencies (DHS and DCFS) accounted for

91 percent of all grant monies received by Pilsen during Fiscal Year 1998. Exhibit 1-2 presents the various sources of grant income to Pilsen during Fiscal Years 1997 and 1998.

Pilsen's two major sources of grant funds—the Offices of Mental Health, and Alcoholism and Substance Abuse—remained relatively unchanged over the two years audited. Pilsen management has indicated that these on-going grants are what keeps the Center afloat. A reason why grant funding fluctuates from year to year is because grant sources may place an emphasis on some other part of their venture, and thus Pilsen's share of the overall grant may change.

The 36 percent decrease in grant money received from DCFS is attributable to a new DCFS initiative started in FY98 where counseling contract monies were added in to foster care payments for those children who are wards of a foster care facility. Some of the facilities started to do counseling in-house and agencies like Pilsen lost some clients.

Pilsen officials have reported that their geographic service area includes a large undocumented population that live in the United States illegally. Generally, this group would not be eligible for Medicaid benefits so any services provided by Pilsen are charged to grants received from the State.

Some grant funds are comprised of federal monies that are passed-through State (or other) agencies to Pilsen. During Fiscal Years 1997 and 1998 federal funds from the Department of Health and Human Services, Department of Education, Department of Transportation, Housing and Urban Development, and Federal Emergency Management Agency were provided to Pilsen in the form of grants. Pass-through sources of funds included the State Departments of Human Services (Offices of Mental Health (OMH) and Alcoholism (OASA) and Rehabilitation Services (ORS)) and Children and Family Services. Additionally, the City of Chicago Department of Health and the AIDS Foundation provided grants to Pilsen.

Fees For Service

Pilsen's second most prevalent source of support comes from charging a fee for services rendered. These fees are billed to Third Party Payers like insurance companies but more commonly come from Medicaid eligible billings to a State agency. During Fiscal Year 1998 Pilsen billings of fees for service decreased by 19 percent over Fiscal Year 1997. Over 60 percent of Fiscal

Exhibit 1-3
PILSEN FEES FOR SERVICE INCOME
Fiscal Years 1997-1998

Source	FY98 Fees for Service	FY97 Fees for Service	% Increase or Decrease
DHS-OMH	$287,617	$373,719	-23.04%
DHS-OASA	$12,510	$31,478	-60.26%
DPA	$38,958	$26,882	44.92%
DHS-ORS	$68,976	$69,918	-1.35%
Client/Family Payments	$263,146	$210,490	25.02%
Medicare	$4,779	$20,498	-76.69%
Comm. Family Services	$0	$102,614	-100.00%
Other 3rd Parties	$99	$0	
Total:	$676,085	$835,599	-19.09%

Note: The Exhibit does not include funding from a DCFS grant and award appropriation which was classified as grant funding in Pilsen's financial statements, but which DCFS now contends is fee-for-service funding. This funding is included in Exhibit 1-2.

Source: OAG Summary of Pilsen audited financial statements.

Year 1998 billable fees for service were sent to State agencies (DHS and DPA). Eligible clients must first be billed to Medicaid before any other form of reimbursement can be attempted.

When Pilsen has a Medicaid billing it is submitted to DHS (for either mental health or alcohol and substance abuse treatment). DHS reviews the billing for proper coding, etc. and submits the bills to DPA for review of eligibility to be a reimbursed service. After verification by DPA, Pilsen is paid the entire amount of the bill and the State is qualified to receive 50 percent reimbursement of the amounts from the federal government.

Other Sources

Pilsen received support of almost $402,000 from other sources during Fiscal Year 1998, 82 percent ($328,943) of which came from "contributed goods and services." The value assigned to these contributed goods and services varies by an hourly rate for services and by the pound (mainly food) for contributed goods.

EXPENDITURES

Pilsen expenditures during Fiscal Years 1997 and 1998 were $4.3 million and $4.2 million respectively. Sixty-six percent of expenditures were for Total Personnel Costs. Administrative overhead costs allocated to the various Pilsen cost centers amounted to $926,647 and $754,698 during the two fiscal years. Exhibit 1-4 contains a Fiscal Year 1998 breakdown of the top ten expenditure categories at Pilsen (Appendix B contains a comprehensive breakdown of Pilsen expenditures by expense category and cost center).

Pilsen has appropriate documented policies and procedures to guide the disbursement process. Program coordinators at Pilsen's individual facilities identify the need for goods and services and complete a requisition form. The requisition form indicates the facility, name and address of vendor, purpose of the request and the account to be charged. This form is signed by the program coordinator at the facility and sent to the Business Office for approval. According to Pilsen staff no one individual can initiate and approve an expenditure of funds without additional review by others.

Exhibit 1-4
BREAKDOWN OF PILSEN EXPENDITURES
Fiscal Year 1998

Expense	Dollars Spent	%age of Total
Salaries & Wages	$2,374,087	56.7%
Payroll Taxes	$200,195	4.8%
Employee Benefits	$179,129	4.3%
Interest/Bank Charges	$118,948	2.8%
Building Lease	$114,216	2.7%
Maintenance	$110,167	2.6%
Office Expense	$61,870	1.5%
Utilities	$60,548	1.4%
Building Depreciation	$53,677	1.3%
Telephone	$50,954	1.2%
Total: Top 10	$3,323,791	79.4%
All Others	$863,525	20.6%
Grand Total	$4,187,316	100.00%

Source: OAG Summary of Pilsen General Ledger

FISCAL PROCESS

Pilsen maintains a comprehensive Financial Procedures Manual for Expenditure and Management of Funds. The manual addresses all financial aspects of the agency from budgeting through the disbursement of funds.

Disbursement

Program coordinators at the individual facilities identify the need for goods and services and complete the appropriate check or requisition form which includes: the facility, name and address of vendor, purpose of the request and the account to be charged. The form is signed by the facility program coordinator, forwarded to the Business Office where the Chief Program Officer reviews the requisition for appropriate budget resources and either approves or disapproves the request. Approved requests then need further approval from the Chief Executive Officer. Fiscal staff then prepare a purchase order from an approved vendor listing. Fiscal staff process the purchase order and await the payment invoice and mail the purchase order to the vendor. In some circumstances goods and services cannot be obtained without immediate payment. In this case, a check requisition is prepared by the Program coordinator at the requesting facility.

When purchased goods arrive, the receiving clerk at the individual facility verifies the quantity and condition of the shipment. A receiving report is to be prepared by the facility and sent to the Business Office. Fiscal staff match invoices, bill of lading, receiving report, purchase order, and requisition, and then a check is prepared. All information including the purchase order, bill of lading, receiving report, invoice, etc. are forwarded to the Chief Program Officer and the Executive Director for approval and signature on checks. Two signatures are required on all disbursement checks. Once paid, the expense is allocated to the different programs by fiscal staff.

Funds

Pilsen financial operations flow through four accounts. The General Account is used to pay for almost all expenditures. A Payroll Account is used to process the semi-monthly payroll processed by an external vendor for Pilsen. The Vocational Payroll Account is maintained to receive revenues to pay client wages for the piecemeal work performed at the Rehabilitation Center. A Special Administrative Account is utilized for the deposit of any unrestricted monies received by the agency. Transfers are made to the General Account to make payments for all expenses and to make up for shortages in the General Account when a State grant payment is delayed. Pilsen's external auditor reported that funding sources (i.e., grants and other revenues) are commingled in the General Account and that expenses cannot be traced to specific revenues because all funds—both unrestricted and temporarily restricted—are placed in the same account.

PILSEN MONITORING BY STATE AGENCIES

During the audit we found that State agencies (Departments of Human Services, Public Aid, and Children and Family Services) generally monitor the appropriateness of Pilsen expenditures at a high level. The agencies' programs which review or audit the appropriateness of Pilsen's expenditures are discussed below. Other monitoring or review activities are discussed in Appendix C.

DEPARTMENT OF HUMAN SERVICES

The Department of Human Services (DHS) conducted various monitoring activities at and relating to Pilsen during Fiscal Years 1997 and 1998. These activities included a number of on-site surveys conducted by DHS program staff to verify that program standards were met and that services were delivered.

Within 45 days of the end of the State fiscal year, all grant funded providers must submit a Grant Spending Status Confirmation of the amounts spent and received to the Department of Human Services. Providers such as Pilsen, receiving funding in excess of $300,000, must have an Independent CPA opinion on financial statements and Supplemental Schedules in the format of the Consolidated Financial Report, and must meet Federal Circular A-133 requirements.

The DHS *Audit Review Section*, in the Bureau of Contract Compliance, is responsible for the monitoring of community service providers' compliance with financial reporting requirements. The Section's intent is to provide a reasonable assurance that State and Federal funds awarded to community service providers are accounted for and that funds are returned to the Department, either as a refund or as a recovery through future services if funds are unused, misused, or misappropriated.

Desk reviews of the audited financial statements are prepared by this Section. The review consists of examining the audited financial statements to determine if there are any financial issues raised which warrant further review. On-site reviews are conducted by the Audit Review Section for between 100-120 providers a year (there are some 3,000 community providers that DHS oversees). Risk profiles drive which site reviews are selected. The largest risk factor considered is expenditure level. Pilsen was not chosen for a site visit during either Fiscal Year 1997 or 1998 by the Audit Review Section. DHS fiscal monitoring included a detailed on-site review of internal controls in Fiscal Year 1996, and a subsequent Fiscal Year 1999 review by the Office of Contract Administration was delayed until Fiscal Year 2000 because of this audit according to DHS officials. Appendix C provides more detail on other reviews conducted by DHS.

DEPARTMENT OF PUBLIC AID

Within the Department's Office of the Inspector General, the Bureau of Medical Quality Assurance (BMQA), annually conducts 350 medical provider audits. Pilsen is categorized as one of 617 Mental Health Service Providers, and one of 64,900 providers monitored by BMQA. Six bureau analysts prioritize report selection by analyzing risk area information dispensed by the Surveillance Utilization Review Subsystem. Factors exceeding established parameters may alert analysts to high-risk providers. Bureau officials stated that with the exception of quality-of-care issues, audit selection involves primarily selecting a sample of providers that comprise a statistically valid portion of total expenditures, services provided, and other factors included in the analysis. Due to Pilsen's relatively small fee-for-service billings and comparative expenditures, it is not considered a high-risk provider and thus not audited by BMQA.

DEPARTMENT OF CHILDREN AND FAMILY SERVICES

The Office of Internal Audits performs a desk review of the Pilsen audited financial statements on a yearly basis. Due to backlogs, the last review was for a two-year period (years ended June 30, 1996, and June 30, 1997) and was completed in June of 1998. The review is an analysis of whether funds were not utilized and reliance is placed on the certified financial statements. Internal Audits has not gone on-site in the past five years to review Pilsen expenditures claimed on the financial statements. The review for FY96 identified excess program revenues of $6,843 which DCFS requested from Pilsen and subsequently received.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. The objective for the audit was to determine whether funds received by Pilsen have been spent according to applicable laws, regulations, contracts and grants. This audit was conducted as a management audit.

The Resolution did not specify a time period for the audit to review; therefore, we selected and examined expenditures from all sources of Pilsen funds for Fiscal Years 1997 and 1998. We were provided copies of the Pilsen General Ledgers for the two fiscal years and judgmentally sampled 139 checks/expenditures, with a total expenditure level of $228,409.41 in FY97, and 126 worth $134,830.30 in FY98.

We tested the sample for availability of supporting documentation for expenditures made by Pilsen as well as the allowability of those expenses. Since personnel costs account for the majority of expenditures at Pilsen, we selected a sample of employees for payroll testing. Additionally, steps were built into our audit tasks to examine potential related party transactions and review inventory maintained by Pilsen.

In conducting the audit, we reviewed the statutes, administrative rules and federal circulars relative to the expenditure of funds provided to Pilsen. All State funding must comply with guidance directed by the Illinois Administrative Code. Allowability of expenditures from federal funds are guided by OMB Circular A-122. During Fiscal Year 1998, Pilsen expended over $731,000 in federal funds passed through various granting agencies. We also examined the contracts and agreements between State agencies and Pilsen to identify the requirements and criteria which apply to the expenditure of State funds. We examined the last two audits conducted by Pilsen's external auditor, reviews performed by State agencies, and Pilsen regulatory filings. We also assessed management controls that were relevant to the audit objective. Weaknesses in management controls identified are reported as findings in this audit report.

We interviewed officials from Pilsen (including its external audit firm), the Office of the Attorney General, and the Illinois Departments of Human Services, Children and Family Services, Public Aid, Revenue, and State Police (Medicaid Fraud Unit). Additionally, we contacted staff from the City of Chicago Department of Public Health (Mental Health and HIV/AIDS Divisions) to determine if Pilsen needed to follow OMB Circular A-122 requirements for funds Pilsen receives from the City. During the audit, we also conferred with the federal Office of Management and Budget on indirect cost allocation plans and staff from Ameritech regarding business accounts for cellular service.

REPORT ORGANIZATION

This report is organized into two chapters. Included in the remaining chapter are the results of our testing of Pilsen's expenditures along with amounts we question due to several factors such as lack of adequate documentation or non-allowable expenditures.

Chapter 2
QUESTIONABLE EXPENDITURE OF FUNDS

Pilsen received 91 percent of its grant funding from the State in 1998. While State agencies have conducted reviews of Pilsen activities, none of the agencies has conducted a detailed review of Pilsen's expenditures, as we were directed to do pursuant to House Resolution Number 385. Our audit identified expenditures which appeared to be inappropriately charged to State programs. We also found that documentation to support many of the expenditures sampled was lacking information on the amount, date, place, and essential character of the expense.

Specific findings noted in this chapter are:

- Over $57,000 in property taxes paid on Pilsen-owned buildings were charged primarily to State-funded programs in Fiscal Years 1997 and 1998. Pilsen has been exempt from paying property taxes since 1995.

- Pilsen's inconsistent allocation of indirect costs resulted in overcharges to State-funded programs totaling almost $108,000 during Fiscal Years 1997 and 1998. The agency's allocation of indirect costs violated federal and State regulations and shifted a disproportionate share of indirect costs to State-funded programs.

- Pilsen made $800 in political contributions and failed to disclose the contributions on its federal Internal Revenue Service (IRS) return. As a 501(c)(3) not-for-profit organization, IRS regulations prohibit such organizations from making political contributions.

- Pilsen's payroll administration was the subject of numerous findings. The allocation of salaries was not consistently applied to both State and non State-funded programs resulting in State-funded programs being overcharged payroll expenses. Pilsen paid over $16,000 in wages to an employee who was apparently on unauthorized absence. An undetected error in processing the payroll resulted in a contractual psychiatrist receiving both a payroll check and a contractual services check. Further, 31 percent of our sample of instances where employees were away from work on agency business lacked proper support. Finally, we found that the agency classified nearly $21,000 in bonuses as Office Expense and failed to report it on employee W-2 forms as income.

- Almost $31,000 in business expense reimbursements to Pilsen administrators were questioned due to a misclassification of expenses or lack of documentation to support the expenditure.

- Nearly $11,400 in travel expenditures were questioned due to unsubstantiated necessity of the travel or payments made for unallowable costs. Additionally, we questioned the appropriateness of expenditures for a cellular telephone account ($8,232) and recreation and crafts ($4,063.50).

- Cash management practices need to be strengthened. Pilsen regularly made payments to employees who then paid vendors for goods and services, which is contrary to State guidelines. Lack of support, including receipts dated ten months after a check was issued to an employee, caused us to question $12,532. Also, the agency granted a $15,000 interest free loan to an employee. The employee repaid the loan and then issued himself a $17,500 bonus four days after repayment.

- Pilsen has not performed a physical inventory of all its property and equipment, some purchased with State funds. Without maintaining an accurate inventory of all its property and equipment, Pilsen is not in a position to exercise adequate control over its equipment to prevent its loss from abuse or misappropriation.

- Pilsen purchased and leased buildings from an entity with which Pilsen's Chief Executive Officer served as President or Trustee. If such relationships constitute related party transactions, they need to be disclosed in Pilsen's financial statements, as required by auditing standards.

In light of the above findings, we recommended that the Departments of Human Services, Public Aid, and Children and Family Services follow up on these findings and determine whether State funds should be recovered.

PROPERTY TAXES

During the two years examined in this audit, Pilsen paid over $57,000 in property taxes for which it was not responsible due to a property tax exemption it has had since 1995. The $57,000 was charged primarily to State-funded programs either as a direct cost of occupancy or as administrative overhead through the cost allocation plan. See Exhibit 2-1 for a breakdown of property taxes paid during Fiscal Years 1997-1998.

Exhibit 2-1
PROPERTY TAXES PAID BY PILSEN
Fiscal Years 1997-1998

Facility Address	Property Taxes Paid in FY98	Property Taxes Paid in FY97	Total
2319 South Damen Avenue	$14,073.28	$27,010.25	$41,083.53
3113 West Cermak Road	$2,627.85	$5,043.42	$7,671.27
2635 West 23rd Street	$1,317.19	$455.02	$1,772.21
1858 West Cermak Road	$1,328.39	$659.65	$1,988.04
2015 West Cermak Road	$2,313.96	$2,235.65	$4,549.61
Woodhaven Lakes Lot	$78.71	$51.40	$130.11
Total	$21,739.38	$35,455.39	$57,194.77

Source: OAG Summary of Pilsen documentation

Pilsen has purchased 5 of the 9 buildings out of which they operate. The administration office (2319 South Damen) was purchased in March of 1994. The Methadone facility at 3113 West Cermak was purchased in July 1994. Three facilities: Outpatient Mental Health (1858 West Cermak), Pilsen Inn Residential (2635 West 23rd Street), and the Vocational Rehabilitation Center (2015 West Cermak), were purchased in November of 1995. Pilsen also pays property tax in Lee County for a lot donated to the organization.

Illinois Department of Revenue documentation and an official confirmed that Pilsen has had an exemption for property taxes on the addresses listed in Exhibit 2-1 (with the exception of the donated lot). To be exempt from property tax, an organization must file with the Department of Revenue showing that they are a charitable organization using the property for charitable purposes.

OMB Circular A-122 allows the 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 exemption and ended up paying taxes for which they were not responsible. Pilsen has filed for a refund. However, they have continued to pay property taxes during the legal process.

	PROPERTY TAXES
RECOMMENDATION NUMBER 1	***Pilsen management should continue to seek refunds of any monies inappropriately paid for and charged to State-funded programs and repay the State any monies due.***
PILSEN RESPONSE	Pilsen management had previously contacted the proper authorities to seek refunds for payment of taxes. Once these payments are returned, we will repay the State any monies due.

COST ALLOCATION PLAN FOR INDIRECT COSTS

Inconsistent allocation of indirect costs resulted in overcharges to State-funded programs during Fiscal Years 1997 and 1998 totaling almost $108,000. The methods used to allocate indirect costs to Pilsen programs were not consistent or in compliance with State and federal regulations.

State rules allow for the allocation of expenses that are not readily identifiable to a specific program. However, the expenses must be allocated to all program services, both State-funded and non-State funded. Additionally, grant recipients must adopt a cost allocation plan by an acceptable method and apply it consistently (77 Ill. Adm. Code 2030.340 (a)(b)). Federal regulations also provide guidance for allocating indirect costs across programs—including that costs cannot be shifted to other programs to avoid funding deficiencies or to avoid restrictions imposed by law or the terms of an award.

During FY97-98 Pilsen had 15 programs over which to spread the indirect costs (also known as Management and General Expenses). The State funded 11 of these 15 programs.

Pilsen's method for allocation of indirect costs involved four steps: (1) determine total administrative costs to allocate, (2) remove total of unallowable expenses, (3) apply the maximum level for programs with maximum contract rates, (4) allocate remaining costs to programs without a contractual rate using some criteria. Pilsen allocation criterion changed from Total Expenses in Fiscal Year 1997 to Payroll/Salary Expense in Fiscal Year 1998.

For the two years audited, we consistently applied the criteria (total expenses or total payroll) to the administrative costs Pilsen allocated and found that State-funded programs were overcharged $57,162.77 in Fiscal Year 1997 and $50,739.35 in Fiscal Year 1998. This overcharge occurred because all funding sources for the programs at Pilsen were not consistently allocated the administrative overhead costs. Contracts with maximum amounts allowed for overhead resulted in those programs being allocated less than their proportionate share of the administrative costs. Additionally, in December 1998, DHS' desk review noted an excess of administrative costs allocated to DHS funded programs.

While some of Pilsen's contracts stipulate a maximum indirect cost allocation amount, there is no basis for shifting the additional indirect costs to State-funded programs.

COST ALLOCATION PLAN FOR INDIRECT COSTS	
RECOMMENDATION NUMBER 2	***Pilsen management should develop and implement a consistent cost allocation plan that does not shift a disproportionate amount of their indirect costs to State-funded programs.***
PILSEN RESPONSE	Pilsen management has started to develop and implement a plan that will properly adhere to appropriate cost allocations and which will properly appropriate State funds in conjunction with current indirect cost plans. We will work with a CPA consultant to assist us with this mandate.

BONUSES

In calendar years 1996 and 1997, Pilsen provided bonuses to employees totaling $78,733.29: $38,451 in calendar 1997 and $40,282.29 in 1996. These bonuses are detailed in Exhibit 2-2. As shown in Exhibit 2-2, the CEO received the largest bonuses in 1996 and 1997 (see section on Employee Loan on page 26 for further discussion of these bonuses).

In December 1997, Pilsen provided 97 employee bonuses totaling $20,951 which were misclassified as Office Expense and not reported on the employees W-2 forms. The bonuses ranged from $25 up to $1,000 with an average bonus of $216. From our testing of expenditures during fieldwork, we were able to determine the December 1997 process failed to report the bonuses as income on the employees W-2 statements. Not reporting this income on the employees' W-2 forms places the employees at risk for their personal taxes.

Furthermore, it was unclear whether bonuses provided to staff were related to performance (such as merit increases) or were simply a distribution of excess funds. Pilsen management described that if funds were available, bonuses would be awarded to employees during the holiday season. In December 1996, bonuses totaling $20,282.29 were given to employees. Additional bonuses, totaling $37,500, were given to staff at other times in 1996 and 1997.

The bonuses have an impact on State-funded programs/cost centers since State dollars are used to pay Salaries and Wages which is the largest expense item in each program and Office Expense is a direct cost to the programs. Federal regulations (OMB Circular A-122) allow for incentive pay when such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

Exhibit 2-2
BONUSES BY PROGRAM AREA
Calendar Years 1996 and 1997

	Calendar 1997			Calendar 1996		
Program Area	Number of Staff Paid Bonuses	Total Bonuses Paid	Average Bonus	Number of Staff Paid Bonuses	Total Bonuses Paid	Average Bonus
Executive Staff-CEO	1	$17,500.00	$17,500.00	1	**$19,022.07	$9,511.04
Executive Staff-CFO	0	$0.00	$0.00	1	$1,065.45	$1,065.45
Executive Staff-CPO	0	$0.00	$0.00	1	$710.30	$710.30
Administration	7	*$4,360.00	$622.86	12	$3,717.94	$309.83
Emergency Psychiatric	1	*$540.00	$540.00	1	$292.37	$292.37
Comprehensive Prevention	1	*$520.00	$520.00	1	$227.40	$227.40
Outpatient Mental Health	14	*$4,271.00	$305.07	11	$2,701.69	$245.61
Family Systems Program	3	*$845.00	$281.67	2	$649.71	$324.86
HIV/AIDS	8	*$1,900.00	$237.50	7	$1,678.41	$239.77
Vocational Rehab Center	5	*$1,050.00	$210.00	5	$996.22	$199.24
CILA	21	*$3,275.00	$155.95	*** 18	$2,909.38	$153.13
DUI	2	*$305.00	$152.50	1	$303.20	$303.20
Pilsen Inn	9	*$1,200.00	$133.33	*** 10	$2,126.16	$193.29
Door-to-Door (SLIAG)	2	*$225.00	$112.50	2	$552.25	$276.13
Methadone Treatment	19	*$1,965.00	$103.42	16	$2,263.15	$141.45
Alcoholism Outpatient	2	*$205.00	$102.50	3	$752.57	$250.86
MI/SA	3	*$290.00	$96.67	3	$314.02	$104.67
Total	98	$38,451.00	$392.36	95	$40,282.29	$411.04

* These were December 1997 bonuses totaling $20,951 that were not reported on employee W-2 forms.

** The CEO received 2 bonuses in Calendar 1996, one for $17,500 and the other for $1,522.07.

*** One employee in each program received two bonuses during the year.

Source: OAG Summary of Pilsen documentation

Finally, there was no documentation that Pilsen's Board of Directors formally reviewed or approved the bonuses issued to employees. Pilsen's policies do not require the Board to review and approve bonuses. Consistent with its fiduciary responsibilities, Board review and approval of bonuses would help ensure that bonuses complied with legal requirements and were properly expensed.

	BONUSES
RECOMMENDATION NUMBER 3	***Pilsen management should properly report bonuses as employee income on W-2 statements and should only charge pay increases related to employee performance to State programs. Furthermore, the Board of Directors should formally review and approve all bonuses granted to employees.***
PILSEN RESPONSE	Under new fiscal management, the agency has taken steps to ensure that any future bonuses will be properly reported as employee income on W-2 statements; and that said bonuses will be related to employee performance only, as stipulated in a written evaluation form. In addition, all future increases will be formally reviewed, discussed and ratified by the Board of Directors, prior to the issuance of any increases. Again, for the record, Pilsen management was fully unaware that previous bonuses were not reported on the employee W-2 statements.

POLITICAL CONTRIBUTIONS

Political contributions made by Pilsen during Fiscal Year 1997 can jeopardize its tax-exempt status as a not-for-profit. Two payments totaling $800, were made to a political campaign fund and not reported on the Pilsen federal tax return.

Pilsen is organized as a not-for-profit under Section 501(c)(3) of the Internal Revenue Code. As such, Internal Revenue Service regulations prohibit such organizations from making political contributions. These political contributions were paid from an expense classification which was not allocated to State funded programs. Additionally, the informational return (Form 990 - Return of Organization Exempt from Income Tax) that Pilsen must file with the Internal Revenue Service includes a section for "Expenditures for Political Purposes." The instructions for the completion of the form defines an expenditure as a "payment, distribution, loan, advance, deposit, or gift of money, or anything of value" to influence the selection, nomination or election of anyone to public office. The political contributions were not disclosed on the IRS Form 990.

	POLITICAL CONTRIBUTIONS
RECOMMENDATION NUMBER 4	***Pilsen management should not use Pilsen funds to make political contributions.***
PILSEN RESPONSE	Pilsen management was not aware of this policy, and will go on record to state that: Most of these contributions are for community based functions that have more to do with the state of affairs and networking, a vital component of our participation in the community we serve. We accept the recommendation and will seek donations and/or utilize other sources for future community events.

PAYROLL TESTING IRREGULARITIES

During audit testing of payroll activities we noted situations where Pilsen: lacked documentation to support the allocation of salaries to various programs; failed to withhold pay from an executive level employee for apparent unauthorized absences from work; paid a part-time psychiatrist twice for the same work period; inappropriately classified wage payments as contractual work; and lacked documentation to support employee time away from work on agency business.

ALLOCATION OF SALARIES

Several Pilsen employees whose files were tested during fieldwork perform work activities among different programs at the agency but their salaries were only charged to State-funded programs. Pilsen staff were unable to provide support for the allocation percentages but explained that the allocations were set by the Chief Financial Officer. Five employees earned approximately $176,000 in each fiscal year audited. Failure to correctly allocate the salaries resulted in State-funded programs being charged a disproportionate share of the salaries. Additionally, since payroll dollars were the criteria for the FY98 cost allocation plan, State-funded programs were also charged excessive amounts of indirect costs.

Exhibit 2-3
CHIEF PROGRAM OFFICER
Job Description

1. Provides program supervision for all divisions
2. Provides direct supervision of division directors and other program managers
3. Reviews and implements all programmatic initiatives
4. Implements all new programs
5. Provides assistance to team members to prepare for all program audits
6. Provides annual reviews of programs and division directors

Source: OAG Summary of Pilsen Job Description

During FY97, the Chief Program Officer's (CPO) salary was split between the Outpatient Mental Health program and the CILA program (both State-funded). In FY98 this was expanded to include the Vocational Rehabilitation Center (also State-funded) and a small percentage to the AIDS program (City-funded). Exhibit 2-3 summarizes some of the activities from the CPO job description at Pilsen. The CPO reported to auditors that he performed activities out of the administration offices for all programs during the two years within the scope of this audit.

Four maintenance personnel salaries were also allocated among State-funded programs during the two years with only 10 percent of one individual's salary (the head of maintenance) charged to a non-State-funded program. Pilsen maintenance personnel operate out of the administrative facility and travel as needed to perform routine or emergency maintenance at the other Pilsen sites. No work logs were kept as to which projects individual personnel were responsible—nor did the maintenance personnel sign-out of one facility and sign-in at another facility when work was performed outside the administration building.

QUESTIONABLE PAYMENT FOR UNAUTHORIZED ABSENCES

Pilsen paid the former Chief Financial Officer (CFO) over $16,000 in wages when time reports indicate unauthorized absences during Fiscal Year 1998. Time sign-in sheets maintained at the administration offices indicated that the CFO was "UA" (unauthorized absence without pay) on 41 occasions—which projects to $16,557.85 in pay that should possibly have been withheld. Additionally, the sign-in sheets also contain numerous "question marks" after the times the CFO had signed out for the day. The CFO's salary is an administrative (indirect) cost that is allocated among the various programs. Responsibility for distributing the payroll was the job of the CFO. Failure to determine whether to withhold this salary resulted in State-funded programs bearing the burden of these unauthorized absences. According to Pilsen management, as of early FY99 the CFO no longer worked for the agency.

DOUBLE PAYMENT FOR PSYCHIATRIC SERVICES

An error by Pilsen in processing payments for a part-time psychiatrist resulted in $812.50 being paid twice to the physician for the same work in December 1996. The psychiatrist's services were being provided to Pilsen under a contract with the University of Illinois at Chicago which, according to Pilsen management, required payment for those services to be processed to the University. The University would then make payment to the psychiatrist. For reasons unknown to Pilsen management, Pilsen also processed a payroll check to the psychiatrist.

MISCLASSIFICATION OF CONTRACTUAL WAGES

During sample testing we found that the agency inappropriately paid $24,000 under a specially developed retirement plan and allocated that as an indirect payroll cost to State-funded programs. Pilsen reported the amounts as non-employee compensation on the individual's 1099-MISC.

Pilsen has no formal retirement plan available to staff that retire from the organization. However, in November 1996 a non-qualified pension plan was arranged for a former employee. According to the CEO the plan was to pay the employee a year's salary spread out over a three-year period. The Pilsen Board of Directors approved this arrangement at their November 1996 meeting. The payments were set up to be run through the payroll system as if the employee were still in an administrative position. Pilsen then inappropriately allocated the $24,000 as an indirect payroll cost to other programs—including State-funded programs. Unlike other indirect payroll expenses where an employee actually performs work for the organization, no benefit was derived from this former employee. Pilsen should have paid this pension benefit through some source of unrestricted funds and not the cost allocation plan.

QUESTIONABLE DOCUMENTATION TO SUPPORT WAGE PAYMENTS

We questioned $16,145.73 paid to a full-time maintenance employee who had inconclusive documentation to support the wages paid. Pilsen reported the amounts as non-employee compensation on the individual's 1099-MISC form.

During the audit period Pilsen employed a full-time maintenance position for which we received conflicting documentation on whether the person actually worked during Fiscal years 1997 and 1998. Payroll status change forms showed the employee went from an hourly paid employee to a salaried position in July 1996. Wages were allocated to all programs as indirect payroll costs, but, unlike other maintenance personnel, no taxes were withheld and the employee was treated as a contractual employee. This was the only maintenance individual paid contractually.

When asked about the duties of this employee, a Pilsen administrator could not recall having seen the employee at any of the Pilsen sites in approximately four years, despite the fact that time log records indicate the employee worked 40 hours a week during all of FY97 and through March of FY98. Employees are to complete their own time sheets, signing in daily. The time sheets for the individual in question, however, contain two different styles of handwriting. Due to these discrepancies we were unable to determine whether the $16,145.73 in wages paid to the individual were appropriate.

TIME AWAY ON AGENCY BUSINESS

Pilsen lacked documentation to support that personnel who were away on agency business were actually away on official business. Thirty-one percent of the cases sampled (5 of 16) of personnel away from work did not have adequate documentation to support the payment of wages for the absence away. Total personnel costs account for approximately 66 percent of all Pilsen expenditures.

During payroll testing, auditors sampled cases where Pilsen employees were away from the office on official business. The individuals sampled included executive level employees, program counselors, support staff and maintenance personnel. Available documentation was reviewed and an additional request to Pilsen staff was made to obtain documentation to support the absences. Five of sixteen sampled cases did not have appropriate documentation. For one case, a Pilsen maintenance employee drew wages while at a conference in Puerto Rico conducting company business *but*, according to Pilsen, the employee paid his own expenses. And in the other four cases Pilsen could provide no explanation. Travel records or other documentation (such as training course requests or certificates of participation) indicated that Pilsen has the potential to thoroughly document authorized absences. However, the lack of documentation for the five cases indicated that Pilsen could improve its documentation procedures.

	PAYROLL IRREGULARITIES
RECOMMENDATION NUMBER 5	***Pilsen management should:*** • ***document and consistently allocate salaries which are multi-program to both State and non-State funded programs,*** • ***establish a control to ensure that wages are withheld when unauthorized absences occur so that unallowable costs are not charged to State-funded programs,*** • ***seek to recover the double payment made to the psychiatrist and request guidance from the State in how to handle the recovered funds,*** • ***assure that contractual wages are adequately reported and documented, and*** • ***require that employees adequately document time away on agency business.***
PILSEN RESPONSE	Pilsen management has: • Tried to comply with appropriate fiscal management protocols throughout its history. • Made changes in personnel due to previous difficulties uncovered by our administrative team and has since taken a pro-active approach in bringing the fiscal department in line with current State guidelines, • Instituted guidelines and administrative protocols to ensure that wages are withheld when unauthorized absences occur. • Been working with the University of Illinois to recoup funds erroneously paid to them and will assure that all wages are reported and documented. • Ensure that all employees document appropriately time away while on agency business.

QUESTIONABLE CELLULAR TELEPHONE USAGE

Questionable cellular phone charges totaling $8,232 in Fiscal Years 1997-1998 were not adequately reviewed by the Pilsen fiscal process.

Telephone expenditures paid by Pilsen are processed without the use of a check request form (which is a form used to obtain multiple authorizations/reviews). An examination of cellular phone bills indicated that one phone was set up in the name of the Chief Financial Officer (CFO) and billed to Pilsen along with its other lines. Billings for this account lacked call detail (such as the date, time, and numbers called) for the amount of services. Another Pilsen cellular line, however, was set up to provide call detail. The call detail page of the billings only showed the directory assistance calls placed by the CFO during the billing cycle. Average monthly charges for the line in the CFO's name were $343 compared to $62 for a line in the agency name. The agency line was not assigned to any one individual but billings did contain call detail.

During the two fiscal years, 35 percent of the directory assistance calls on the detail page were made on weekends and 39 percent of the remaining directory assistance calls were made after 5:00 p.m. on weekdays. Directory assistance calls were made on five days where time records indicated the CFO was on unauthorized leave from the agency—as well as on other non-working days (Thanksgiving, Christmas, personal time-off, sick leave, and while traveling out of State).

The CFO at Pilsen plans, directs and controls the financial and administrative services of the agency under the direction of the Chief Executive Officer. In addition to maintaining all fiscal records and supervision of fiscal staff, the CFO was responsible for participating in fund raising activities and maintaining appropriate relations with funding sources, other professional groups and the community as a whole.

Exhibit 2-4
QUESTIONABLE CELLULAR PHONE CHARGES
Fiscal Years 1997-1998

1. Total Charges to CFO named account:	$8,232.33
2. Total Airtime minutes charged to account:	21,763
3. Average Airtime minutes used per month:	907
4. Number of calls to directory assistance:	222
5. Number of directory assistance calls on weekends:	78
6. Number of directory assistance calls after 5:00 p.m. (non-weekends):	56

Source: OAG Summary of Pilsen Cellular Phone Billings

The Chief Program Officer at Pilsen is the designated contact on all Pilsen cellular phone service and therefore should have been listed as the employer contact on the account. However, when he contacted the carrier to cancel the account after the CFO's departure from the agency, a company representative informed him that the CFO would be required to call and cancel service, indicating a personal and not a business account.

Telephone expenditures for administrative personnel are allocated to State-funded programs through the cost allocation plan. Failure of Pilsen officials to properly review the cellular phone usage by the CFO resulted in State-funded programs being charged questionable costs. Exhibit 2-4 provides a summary of the questionable expenditures.

The Illinois Administrative Code and OMB Circular A-122 require expenses, in order to be allowable, to be adequately documented, reasonable and necessary to provisions of programs, and consistently treated. Lack of oversight by Pilsen on these cellular charges, and lack of documentation as to the business purpose of the expenditures may have resulted in unallowable charges to State-funded programs.

QUESTIONABLE CELLULAR PHONE USAGE

RECOMMENDATION NUMBER 6

Pilsen management should strengthen the review process currently in place for cellular phone accounts to ensure that personal accounts are not paid with agency funds and then allocated to State-funded programs. Additionally, management should recover reimbursement for any personal use of cellular

	phones.
PILSEN RESPONSE	Pilsen management was unaware of the situation involving the cellular phone. This was an infraction of our policies. The

PILSEN RESPONSE (continued)	agency has taken steps to ensure that this will never happen again. We have cancelled non-essential use of this cellular phone and have sent a certified letter to the party in question. We must note that this phone was not registered to the agency, and instead registered to a personal account. Once we have resolved this situation we will return the funds to the State.

QUESTIONABLE REIMBURSEMENT OF EXPENSES

Administrative expenditures were reimbursed to both the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) without adequate documentation to support the necessity of the expenditure. During Fiscal Years 1997 and 1998, these reimbursements totaled almost $31,000. The majority of the expenditures were allocated to various programs, including State-funded programs, as indirect costs incurred by the administration unit of the agency.

The Pilsen Employee Manual addresses reimbursement of expenses by declaring that Pilsen "will reimburse the employee for reasonable out-of-pocket expenses incurred in the performance of the functions and responsibilities of his/her position, when authorized in advance by the President/CEO or the appropriate supervisor." None of the $31,000 in reimbursements were approved in advance. Additionally, to be allowable, a cost must be adequately documented. Good business practice, and Internal Revenue Service guidance, dictate that adequate documentary evidence includes information on the amount, date, place, and essential character of the expense.

CHIEF EXECUTIVE OFFICER (CEO) EXPENSE REIMBURSEMENT

During the audit period, Pilsen's CEO was reimbursed $26,632.14 for 690 business expenditures. The expenses were combined into three categories: Food and Beverage, Automobile, and Other. Exhibit 2-5 summarizes the groupings.

Food and Beverage

Food and Beverage is not an allocated expense under the Pilsen indirect cost allocation plan. Consequently, it is not charged as an expenditure to State-funded programs. However, Pilsen does not segregate which revenues pay which expenses. Additionally, auditors found that Food and Beverage was not always charged to the proper expense code.

Exhibit 2-5
CEO REIMBURSEMENTS
Fiscal Years 1997-1998

Type of Expense	Number of Occurrences	Amount
Food and Beverage	271	$12,875.79
Automobile	308	$4,836.37
Other	111	$8,919.98
Total	690	$26,632.14

Source: OAG Summary of Pilsen documentation

Six percent (17 of 271) of the receipts submitted for reimbursement lacked both a date and time for the food and beverages purchased. Forty-four percent (119 of 271) of the receipts submitted lacked a time for the purchase. These 119 food and beverage purchases totaled $6,045.30. Lack of documentation of this nature makes review of the expenditure for business necessity impossible.

During Fiscal Years 1997-1998, 25 percent (68 of 271) of food and beverage purchases totaling $3,302.13 were charged as Office Expense and allocated among the various costs centers, including State-funded programs. Non-client meals are generally not reimbursable expenses per the Illinois Administrative Code (77 Ill. Adm. Code 2030.360 (k)). Documentation on food and beverage purchases generally lacked business purpose to evaluate the expense as allowable.

Automobile

Automobile expense is an indirect expense for the administration division at Pilsen that is allocated among the various cost centers, including State-funded programs. The Pilsen Board of Directors provides the CEO a conversion van for business and personal use. Logs are not maintained for the expenditures incurred by the CEO for this vehicle. However, 308 expenditures totaling over $4,800 were reimbursed to the CEO during the audit period.

Gasoline and parking receipts were submitted without documentation as to the vehicle that incurred the expense. Auditors could not determine whether expenses reimbursed to the CEO were for the agency provided vehicle or other vehicles. For example, it was noted that:

⇒ Gasoline was purchased within two or fewer days on 43 occasions.
⇒ In 28 of those 43 purchases, the duration was one calendar day duration or less.
⇒ In seven instances, multiple gasoline purchases were made on the same calendar day. In one such occurrence, gas was purchased from the same station within a five-minute period.
⇒ The same gasoline receipt dated October 11, 1996, was submitted for reimbursement on two different occasions.
⇒ Two receipts from the South Loop Self Park were both dated March 30, 1998. One receipt for $16.00 indicates parking from 3:09 p.m. to 4:55 p.m.; the other receipt for $13.75 indicates

parking from 3:27 p.m. to 4:56 p.m., demonstrating that two separate vehicles were reimbursed for parking.

⇒ Seven receipts indicated parking transactions occurring between 9:00 p.m. and 1:00 a.m.

Lack of adequately documented automobile expenses does not allow for proper review by Pilsen fiscal staff. Also, when an employer-provided vehicle is used for personal purposes, the employer is required to report this use to the Internal Revenue Service as additional income on the employee's W-2. Personal use includes commuting to and from one's work and any other use that is non-business related. We could not find evidence that Pilsen had reported usage of the van in tax year 1997 as additional income for the CEO.

Other Reimbursements

Pilsen reimbursed the CEO for $8,919.98 in Other expenditures during the audit period that also lacked adequate documentation as to the business purpose/necessity of the expense. These reimbursements were charged to expense categories such as Office Expense, Office Supplies, and Building and Grounds Maintenance. These indirect expenses for the administration division at Pilsen were then allocated among the various cost centers, including State-funded programs.

The agency is exempt from sales tax as a not-for-profit and has accounts at local businesses to purchase supplies for the organization. One such business is Home Depot where Pilsen is billed for the purchases against its account. Billings show Pilsen to be a tax-exempt customer at the store. During the audit period, the CEO was reimbursed for 19 purchases, for miscellaneous purchases, made at Home Depot. Fifteen of the nineteen purchases (79%) totaling $1,442.59 included sales tax, despite Pilsen's tax-exempt status which was utilized in only four (21%) of the purchases. In addition to paying an unnecessary tax, the CEO failed to submit documentation as to the reason for the purchases, or how materials were to be used.

CHIEF FINANCIAL OFFICER EXPENSE REIMBURSEMENT

Auditors noted several exceptions when reviewing sample expenditures reimbursed to the former CFO during the audit period. These expenditures, totaling $4,157.49, were indirect expenses for the administration division at Pilsen and were allocated among the various cost centers, including State-funded programs. Exceptions included:

- No documentation to support reimbursement of meals as a business expense. Staff meals are not allowed per the Illinois Administrative Code (77 Ill. Adm. Code 2030.360 (k)) and Circular A-122. According to the CEO, compensation issued to the CFO should only have been for meals or expenses that occurred during meetings with Pilsen staff, and approved by the CEO. No documentation was provided to support that Pilsen staff business was conducted during expensed meals. Documentary evidence did not include a date, reflected the purchase of alcohol, or illustrated reimbursement for more than one meal expense in a day.
- Auto reimbursement was not documented as to the business purpose of the expense.

- Pilsen lacked documentation to justify CFO reimbursements for Office Expenses. For example, items purchased from Best Buy and an unidentified retailer did not include a purpose for the purchase or how the items would benefit Pilsen.

Reimbursement of expenses to the CFO (those examined by auditors) were made twice during the audit period. One reimbursement was a compilation of expenses for a 9-month period and the other reimbursement was a compilation of expenses over a four month period.

QUESTIONABLE REIMBURSEMENT OF EXPENSES	
RECOMMENDATION NUMBER 7	***Pilsen management should ensure that adequate documentation exists for business expenses reimbursed to employees.***
PILSEN RESPONSE	Pilsen management has taken steps to ensure that all business expenses have proper documentation before reimbursing employees. Team meetings have been convened with all staff to discuss this procedure to improve and ensure compliance.

CASH MANAGEMENT PRACTICES

Pilsen's practice of issuing checks in the name of employees to pay vendors directly violates cash management guidance set forth for grant funding in the Illinois Administrative Code. Additionally, a loan issued to an employee also violates the same provision of the Code.

PAYMENTS TO EMPLOYEES

In reviewing FY97 and FY98 expenditures, auditors found numerous checks written directly to employees, and not to the vendors with whom the employees were conducting business. This practice demonstrates a violation of State rules, a lack of management control, and creates an opportunity for inappropriate use of State dollars. State rules regarding the award and management of grant funds state that "other than petty cash reimbursements, checks shall not be made payable to cash or to an employee's name for the purpose of cashing and paying vendors directly." (77 Ill. Adm. Code 2030.610 (j)(3))

During the two fiscal years audited, 78 checks sampled were written to employees for a total of $53,415.01. Having subtracted from this total those checks that are portions of other travel and reimbursement findings, auditors found 20 checks totaling $6,044.14 in FY97, and 16 checks in FY98 totaling $6,488.00 (for a two-year total of $12,532.14) written to employees. In several cases reviewed, documentation was insufficient to support purchases or intended recipients, and all but two exceptions were expensed to a State-funded program. We noted:

- An employee was issued a check of $700 for a trip to an amusement park that did not require a list of clients participating in the activity.

- Another employee was advanced a check for $150 for a client picnic; however, over $100 in submitted receipts were dated after the picnic took place.
- A $150 advancement check issued to an employee for a stated holiday budget included a receipt for a purchase made the following April.
- A $300 check request was submitted stating the purpose as a program event. The purchase, however, included a baby shower cake.
- An employee, employed in the City of Chicago funded HOLAA program, was advanced $200 to purchase program-related books in January of 1997. Purchase receipts spanned the next 10 months, including a book purchase in July and a food receipt in October of 1997.
- This same employee was issued $250.00 on May 13, 1998, to purchase food for a health fair on May 22, 1998. Six of the eight submitted receipts were dated after the health fair occurred. In fact, all six showed dates between December 20, 1998, and February 15, 1999. The two receipts submitted before the health fair were dated February of 1998, two months prior to the health fair. None of the submitted receipts were dated between the 13th and 22nd of May.
- A reimbursement check of $232.68 for general program expenditures issued to the Chief Program Officer was allocated only to the Outpatient Program, and not correctly to all Pilsen programs.
- A maintenance employee was advanced $900.00 to purchase materials for a new gate at one of the facilities. The employee paid $14.40 in fees to cash the check. Submitted receipts only reconcile to $816.22, a discrepancy of $83.78.

In the examples stated above, Pilsen either did not document service recipients, or receipt documentation was questionable, a violation of Federal Circular A-122 allowability criteria, 59 Ill. Adm. Code 103.110(a)(A-B), and 77 Ill. Adm. Code 2030.320 (a)(1,5).

EMPLOYEE LOAN

Pilsen issued the CEO a $15,000 interest free loan in December 1996 that was processed as a pay advance, with the check issued by their external payroll company. Documentation to support the payment consisted of a memo from the employee to the Pilsen Board Chairperson requesting the loan. The memo makes no mention of an interest rate on loaned funds but does indicate that it would be paid back by the end of the fiscal year. Pilsen could not provide documentation to show that the Board had approved this loan.

Normally administrative wages and salaries are allocated among programs as an indirect cost. However, Pilsen officials reported that the loan was treated as a salary advancement on the accounts receivable section of the financial statements and not recorded as wages or allocated as an indirect cost. The CEO repaid $15,500 (the extra $500 at the time of the payback was denoted as additional federal taxes) on June 26, 1997 and then issued himself a $17,500 bonus on June 30, 1997. The $17,500 bonus was a payroll expense that was allocated as an indirect cost to all programs, including State-funded programs. Pilsen Board of Directors meeting minutes include no indication of an approval for the bonus. Financial management requirements imposed on Pilsen as a recipient of grant funding does not allow award funds or program income to be used for employee salary advances or employee loans (77 Ill. Adm. Code 2030.610 (j)). Pilsen's own Financial Procedures Manual for Expenditure and

Management of Funds states that "the organization is not a financial institution like a bank or credit union and, as a result, cannot loan money over an extended period of time."

CASH MANAGEMENT PRACTICES	
RECOMMENDATION NUMBER 8	***Pilsen management should:*** • ***require complete documentation of expenditures (such as clients attending events and the business purpose of the expenditure), and only issue reimbursements to employees for out-of-pocket expenses that employees have already incurred and ensure receipts match the amount of the reimbursement check,*** • ***follow State rules and sound business practice and not make checks payable to employees for the purpose of cashing and paying vendors directly, and*** • ***comply with its Financial Procedures Manual and not loan money to employees over an extended period of time.***

PILSEN RESPONSE	Pilsen management will: • take the necessary steps to follow the recommendations set forth, and • comply with current agency Financial Procedures Manual guidelines.

DONATIONS

Pilsen donated $1,850 to various organizations during Fiscal Years 1997 and 1998. Donations are an unallowable expense according to OMB Circular A-122; 59 Ill. Adm. Code 103.110 (b)(8); and 77 Ill. Adm. Code 2030.360 (j).

In FY97, three donation checks totaling $650, and three checks in FY98 totaling $1,200 were examined as part of our fieldwork sample. Donations included:

- a telethon for a local day care center,
- a dinner dance for a development corporation in FY97 and FY98,
- a benefit at the Centrum auditorium, and
- the Boys and Girls Clubs of Chicago and the Network of Hispanic Administrators.

Pilsen has an account for unrestricted funds but does not pay unallocated administrative costs from that account. Instead, funds are transferred into the general checking account and commingled with other funds—including State grant dollars. All six donations outlined above were charged to the administration cost center and expensed to "Other Management." Other Management is not allocated to all programs through the cost allocation plan. However, Pilsen's method of commingling funds and paying all six of these donations from the General Account make tracing the source of revenue impossible.

	DONATIONS
RECOMMENDATION NUMBER 9	***Pilsen management should take the necessary steps to ensure that donations are not paid with State funds.***
PILSEN RESPONSE	Pilsen management accepts this recommendation and will try to secure other unrestricted resources for any future donations.

MEMBERSHIPS

An individual membership totaling $410 was inappropriately charged as an indirect expense to all programs, including State-funded programs during Fiscal Years 1997 and 1998. State rules prohibit the reimbursement of individual dues or memberships (59 Ill. Adm. Code 103.110 (b)(4) and 77 Ill. Adm. Code 2030.360 (a)).

⇒ An individual membership to the American Management Association for the former CFO. An approval form for this expenditure was lacking in both years. Further, this cost ($410 over two fiscal years) was inappropriately expensed as subscriptions and reference materials and allocated to State-funded programs.

Additionally, an expenditure for a group membership for the agency that exceeded spending limits was also inappropriately charged to State-funded programs.

⇒ Agency membership in the Illinois Alcoholism and Drug Dependence Association (IADDA). The cost of membership in substance abuse treatment and prevention professional associations is allowable provided: "the benefit from the membership is related to the funded program; the expenditure is for organization rather than individual membership; the cost of the membership is reasonably related to the value of the services or benefits received and ***does not exceed 1% or $1000 of the Department award, whichever is less*** (emphasis added)." (77 Ill. Adm. Code 2030.360 (a)) The sampled expenditure, $1,053.50, related to dues for 1 of 3 installments to be made by Pilsen. During FY97-98, Pilsen paid IADDA a total of $3,970.56 in membership dues expensed directly to four State-funded program cost centers.

	MEMBERSHIPS
RECOMMENDATION NUMBER 10	***Pilsen management should comply with State requirements regarding the charging of individual and group memberships to State programs.***
PILSEN RESPONSE	Pilsen Management will comply fully with this recommendation, and will work with IADDA to renegotiate the membership dues. IADDA plays an important role as an advocate for substance abuse services.

QUESTIONABLE TRAVEL EXPENDITURES

Auditors found multiple exceptions in the area of travel. Instances such as not documenting conference attendance, not including the business necessity of a trip, or obtaining reimbursement for unallowable expenses demonstrates a lack of control and violation of State and federal rules and Pilsen's own Financial Procedures Manual.

Travel related expense disbursement is addressed by the Pilsen Financial Procedures Manual. Travel reports have to be checked for mathematical accuracy and to ensure that, where applicable, expenditures are supported by valid receipts or other documentation. Additionally, personal expenses are not reimbursable regardless of any difference in costs while traveling.

Over a two-year period, we identified $11,383.25 in questionable travel expenditures. While Pilsen had a travel policy in place, auditors found it was not always followed. Questionable travel expenditures included:

- No verification of CPO attendance at a class on client's rights. Expense improperly allocated to only one program (State-funded) when information provided to the CPO would benefit all programs. Documentation to support the expenditure was only accompanied by a blank application form.
- An employee's attendance and expenses for a 4-day conference in Washington, DC, lacked documentation on the necessity of the trip, activities presented at the conference, or the necessity of the conference to the program. Additionally, no executive level approvals on the check requisition. The expense was a City of Chicago funded program charged to the HIV-AIDS cost center.
- Travel expenses and support for the business necessity of a trip to New Mexico by the CEO were undocumented. Also, no explanation for early arrival to conference or reason for per diem advancement in excess of Pilsen limits. The expenses were charged directly to a City-funded program.
- Payment for training made 6 months in advance with no evidence that the employee attended the training courses. The $238 was charged as a direct expense to a State-funded program.
- Lack of documentation to support early arrival and various unallowable expenses for conference in Puerto Rico. Nearly $4,600 in travel expenses were charged to State-funded programs through the allocation of administrative costs for a conference from June 10th through the 13th of 1998. DHS rules require that the agencies receive prior approval for staff to attend meetings or conferences 250 miles outside of Illinois—Pilsen did not receive an approval from the State for the conference in Puerto Rico (77 Ill. Adm. Code 2030.350 (d)). Questionable expenditures found for the trip included alcohol, gratuities, and a banquet.
- Expenses reimbursed for non-employees accompanying or traveling in the place of the CEO. Receipts include a rental car document not completed by the CEO and expense receipts submitted for the CEO for dates when he was signed-in at Pilsen's administrative office.

	TRAVEL
RECOMMENDATION NUMBER 11	***Pilsen should implement a plan to better document travel expenses. Further, Pilsen administrators and staff should take the necessary steps to fully understand and follow the State and federal restrictions placed on travel reimbursement expenditures.***
PILSEN RESPONSE	The agency accepts this recommendation, and will state for the record that we were not familiar with State protocols for travel. We will ensure that any future activities of this sort be discussed with State officials. The agency has secured policies that will ensure appropriate documentation.

FINE AND PENALTY EXPENDITURES

Expenditure testing at Pilsen revealed instances where State funds were used to pay fines and penalties. Auditors observed checks totaling $2,440.25, of which $631.83 were primarily charged to State-funded programs, issued for parking tickets, a levy, and tax penalties to the Internal Revenue Service. Such expenses are unallowable according to federal and State rules.

Auditors found that in FY97 and FY98, six Pilsen expenditures were written for, or contained, fines and penalties. Examples of questionable penalty payments include:

- A dumping violation issued by the City of Chicago on a leased property for $300.00. The expense was incorrectly charged to the administration cost center and allocated to all Pilsen programs, including State-funded programs, in the cost allocation plan as an indirect cost.
- A penalty of $1,808.42 for failure to deposit the correct amount of tax timely to the Internal Revenue Service. This was expensed initially to Other Management but adjusted to Interest and Bank Charges—both of which were not allocated as an indirect cost. However, Pilsen's method of commingling funds and paying all expenses from the General Account make tracing the source of revenue impossible.
- Bank charges of $125.00 for processing an IRS levy during FY98. This amount was expensed as Interest and Bank charges which **was allocated** among programs, including State-funded programs, during FY98.
- Late payment charges on a utility bill of $166.83 were paid and allocated as an indirect cost to State-funded programs through the cost allocation plan.
- Parking violations paid to the City of Chicago totaling $40.00 were charged to State-funded programs as direct expenses.

Pilsen expenditures of grant funds for fines and penalties violated State and federal rules (59 Ill. Adm. Code 103.110(b)(7); 77 Ill. Adm. Code 2030.360 (i); OMB Circular A-122). Pilsen management stated that they were unaware of what constituted an allowable or unallowable expense. Management also did not have any type of listing of what constitutes an allowable expenditure charged to State or federal monies. Failure to make timely payments results in fees/penalties expended that could be utilized to improve services to Pilsen clients.

	FINES AND PENALTIES
RECOMMENDATION NUMBER 12	***Pilsen management should take necessary steps to fully understand and follow the State and federal restrictions placed on utilizing public funds for fines and penalties.***
PILSEN RESPONSE	Pilsen management accepts these recommendations. It must be reported that although we try to pay the bills on time, we have had difficulty receiving State and Medicaid reimbursements on time, thus making it difficult to meet our financial obligations, thus penalized late fees and or charges.

INVENTORY RECORD DEFICIENCY

Pilsen has not performed a physical inventory of all its property and equipment, some purchased with State funds, which could lead to loss of State property. Without maintaining an accurate inventory of all its property and equipment, Pilsen is not in a position to exercise adequate control over its equipment to prevent its loss from abuse or misappropriation.

State regulations require each fund recipient to maintain accurate property records and to perform a physical inventory of property “at least once every two years to verify the existence, current utilization, and continued need for the property.” (77 Ill. Adm. Code 2030.1140 (b)) Standards for property management state that records need to be accurate. This includes maintaining information on: a description of the property; manufacturer’s serial number or other identification number; acquisition date and cost; location, use and condition of the property; and ultimate disposition data including sales price.

Pilsen assets totaled over $1.9 million in both fiscal years audited (for a breakout by asset type see Exhibit 2-6). The agency’s fixed asset report listed the year the asset was acquired and cost center where the asset was depreciated. However, the report broadly categorized assets as “office furniture” or “furniture for residence” and did not document equipment upgrades such as computers or appliances. During inventory testing we could not find evidence of the disposition some older computers once an upgraded machine was purchased. Property tags for inventory items were used by only one program within the agency. Pilsen management stated that they were in the process of developing an inventory plan for each location to track inventory through

Exhibit 2-6
PILSEN FIXED ASSETS

Asset Type	Value at 6/30/98	Value at 6/30/97
Buildings	$1,270,299.86	$1,270,299.86
Equipment	$371,268.76	$381,396.05
Leasehold Improvements	$220,076.50	$231,779.56
Phone System	$33,851.15	$33,851.15
Transportation Equip.	$16,674.67	$16,674.67
Land	$5,000.00	$5,000.00
Total	$1,917,170.94	$1,939,001.29

Source: OAG Summary of Pilsen fixed asset reports the administration office.

DHS regulations prohibit reimbursement to fund recipients of depreciation on equipment/fixed assets to the extent that the original acquisition was paid in whole or part with award funds (77 Ill. Adm. Code 2030.360 (x)). Information concerning the source of funds used to purchase the assets is necessary to determine whether depreciation is allowable.

	INVENTORY
RECOMMENDATION NUMBER 13	***Pilsen management should schedule and complete a full inventory of its property and equipment and maintain sufficient and adequate property records.***
PILSEN RESPONSE	Pilsen management accepts this recommendation and has begun the process of completing a full inventory of all its property and equipment on an annualized basis.

ADDITIONAL QUESTIONED COSTS

Federal and State regulations require an expenditure to be adequately documented to be an allowable cost. We questioned an additional $5,857.33 in sampled expenditures during this audit due to a lack of adequate support.

Nine disbursements sampled, totaling $1,793.83, were incorrectly charged to State-funded programs at Pilsen. In 5 of 9 cases, the expenditure/service benefited the administration cost center but a portion was directly charged to a State-funded program that operates from the 1st floor of the administration building. The remainder of the expense was then allocated to all programs as an indirect cost—thus making the State-funded program absorb more of the actual dollars expended. For example, electrical and plumbing work and conference room renovations on the 2nd floor of the administration building would benefit all programs, yet 10 percent of the building maintenance expense was charged directly to the State-funded Prevention program that operates from the 1st floor of the building. Then, the administrative overhead was allocated to all programs, including the Prevention program, for the remaining 90 percent.

Five payments totaling $4,063.50 for a staff party were charged as an indirect expenses, in the expense category Recreation and Crafts for the administration division at Pilsen, and then allocated among the various cost centers, including State-funded programs. The party included an open bar, (alcohol is an unallowable expense), live entertainment and a disc jockey. Federal regulations consider entertainment costs to be unallowable. Additionally, State rules also consider non-client meals and entertainment to be unallowable expenses (77 Ill. Adm. Code 2030.360 (e)(k)). A non-client expenditure for their annual Pilsen Thanksgiving party was paid for with donated funds and therefore not questioned by the auditors.

Lack of review by fiscal staff and inappropriate cost center allocations resulted in State-funded programs being charged with questionable expenses.

ADDITIONAL QUESTIONED COSTS	
RECOMMENDATION NUMBER 14	***Pilsen management should only allocate direct costs to State-funded programs that actually receive benefit from the expenditure. Additionally, management should ensure that non-client entertainment is not allocated to State-funded programs.***
PILSEN RESPONSE	Pilsen management accepts this recommendation and will work with a CPA consultant to properly allocate funds.

RELATED PARTY TRANSACTIONS

In our review of the agency's expenditures, we identified a potential related party transaction between Pilsen and the Alliance for the Development of Latino Communities—an organization that leased and sold properties to Pilsen. Statements on Auditing Standards (SAS No. 45) define a related party to include:

> *Affiliates of the enterprise. . .its management. . .and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests....*

Financial statements should include disclosures of material related party transactions. The disclosure should include the nature of the relationship along with a description and dollar amount of the transaction. We noted that Pilsen financial statements and their management representation letter to the external auditor did not disclose any related party transactions.

Within the past four years, Pilsen has leased or purchased numerous buildings from the Alliance for the Development of Latino Communities (Alliance). In Fiscal Year 1996, Pilsen leased 7 of the 10 properties they used from the Alliance. As of June 30, 1998, Pilsen leased one building from the Alliance. Two other leased buildings are now owned by other entities, however, the rents remain the same as when the buildings were owned by the Alliance. Pilsen purchased three of the leased facilities from the Alliance. The other building leased in 1996 from the Alliance housed a laundromat project for Pilsen, which subsequently was closed.

Pilsen's payments to the Alliance on its mortgage increased from $1,100.13 to $6,465.85 monthly during fieldwork for the audit. Pilsen management explained that the former Chief Financial Officer thought they should pay off the Alliance mortgage more quickly than what was originally agreed upon. There was no similar increase, however, in the mortgage payment made by Pilsen on the other loan to the local bank.

Pilsen's Chief Executive Officer conducts business on behalf of the Alliance. When questioned by auditors, the CEO stated he provides property management services free of charge to the Alliance. He added that these activities are conducted from his home. The CEO has check signing authority for the Alliance, with Alliance checks being co-signed by the CEO's former office manager at Pilsen. The FY97 Alliance Charitable Organization Supplement filing has the Pilsen CEO signing as the President, or Trustee, of the Alliance with another Pilsen employee listed as the registered agent. Alliance administrative expenditures reimbursed in 1994, including out of State meals, were reimbursed to the credit card of the Pilsen CEO.

In November 1995, Pilsen purchased three properties from the Alliance for a total purchase price of $470,000. The properties were previously leased from the Alliance and housed the Outpatient Mental Health Program, Pilsen Inn Residential, and Vocational Rehabilitation Center. Financing for the purchase was provided from two sources: a $350,000 mortgage loan from a local bank and an additional mortgage with the Alliance for $125,360.26. Documentation showed that the Alliance had taken out mortgages in July 1995 to purchase the buildings sold to Pilsen four months later. Loan documentation shows the Pilsen CEO signing all the mortgage documents as either the Executive Director for the Alliance or Pilsen-Little Village Community Mental Health Center.

The mailing address for Alliance activities varied on the documentation received during the audit. The Alliance's checking account listed the same address as the Pilsen CEO's current W-2 address. On other documents, the Alliance address is the same as Pilsen's administrative facilities.

We requested federal informational return filings from the Attorney General's Office, for all companies from which Pilsen leased property during the audit period, including the Alliance. Officials from the Attorney General's Charitable Trust Division reported that the Alliance had not filed required reports since 1996. The Attorney General's Office has since requested that the Alliance complete the required filings (Alliance had submitted additional filings during our fieldwork). Further, since the Alliance had sold property during the non-filing period, officials from the Charitable Trust Division stated they would be reviewing the sales transactions.

Given the extent of the real estate transactions between Pilsen and the Alliance, and Pilsen's CEO's involvement in Alliance transactions, disclosure of such relationships may be required in Pilsen's audited financial statements. Furthermore, given that the Office of the Attorney General will be reviewing the real estate transactions of the Alliance, we will share with the Attorney General documentation collected during this audit.

RELATED PARTY TRANSACTIONS	
RECOMMENDATION NUMBER 15	***Pilsen management and the Board of Directors should assess the nature of its transactions with the Alliance for the Development of Latino Communities and determine whether such transactions should be disclosed as related party transactions in its audit report, pursuant to professional auditing standards.***

PILSEN RESPONSE	Pilsen management accepts this recommendation, and will ensure that the agency's Board of Directors assesses any or all-future transactions involving the Alliance for the Development of Latino Communities.

BOARD OF DIRECTORS ACTIONS

During our review of Pilsen's expenditures for Fiscal Years 1997 and 1998, we reported many findings in the areas that were the subject of our sample. These findings ranged from a lack of supporting documentation, to non-compliance, to unauthorized use of grant funds. The pervasiveness of problems raises the possibility that there may also be non-compliance with grant provisions in areas that were not subject to our review.

Corporate by-laws state that the Board of Directors is the governing body of the organization and is empowered to apply for and receive funds and is accountable for and assures the effective discharge of the planning and management functions of the agency.

The findings contained in this audit indicate that the Board needs to increase its oversight of Pilsen operations. To ensure that the members of the Board are fulfilling their mission and fiduciary responsibilities, the Board should improve formal systems for obtaining regular information on Pilsen's operations, including approving expenditures over a pre-determined amount and approving expenditures to executive level employees.

BOARD OF DIRECTORS ACTIONS	
RECOMMENDATION NUMBER 16	***Given the Board of Directors' responsibilities as delineated in corporate by-laws, the Board should conduct an examination of its level of control over Pilsen operations. Furthermore, the Board should exercise its oversight responsibilities and ensure that appropriate action is taken to address deficiencies noted in this audit.***
PILSEN RESPONSE	The agency's Board of Directors fully accepts these recommendations, and will work diligently with agency administrative staff to comply with all State mandates and regulations.

FOLLOW UP ON AUDIT FINDINGS

Pilsen received 91 percent of its grant funding from the State in Fiscal Year 1998. These grants come primarily from the Department of Human Services for Pilsen's two major programs (mental health and substance abuse) with an additional amount from the Department of Children and Family Services. The Department of Public Aid provides funds to Pilsen on a fee-for-service basis.

As noted in Chapter 1, while State agencies have conducted reviews of Pilsen activities, none of the agencies have conducted a detailed review of Pilsen's expenditures, as we were directed to pursuant to House Resolution Number 385. Given the questioned costs, fiscal deficiencies and certain management practices outlined in the findings detailed earlier in this chapter, the State agencies that provide funding to Pilsen should follow up on the findings and seek recovery of any inappropriately expended State funds.

FOLLOW UP	
RECOMMENDATION NUMBER 17	***The Departments of Human Services, Public Aid and Children and Family Services should undertake a thorough evaluation of Pilsen financial practices to determine if funds received from the State are adequately protected and have been appropriately expended. Further, the Departments should follow up on the questionable expenditures reported during this audit and seek recovery of any inappropriately expended State funds.***
DEPARTMENT RESPONSES	DHS RESPONSE DHS will follow up on questionable expenditures identified in the audit and will take appropriate action to resolve these expenditures. DHS requires Pilsen to submit annual independent audits with supplemental expense and revenue program information. Our review of this information also noted an excess of administrative costs allocated to State-funded programs. The reports also disclosed the property tax issue. Both of these issues

DEPARTMENT RESPONSES (continued)	were identified for resolution by DHS' Office of Contract Administration (OCA). On-site reviews are conducted, with the last one done in Fiscal Year 1996. OCA will visit Pilsen again in Fiscal Year 2000. This visit was originally planned for Fiscal Year 1999, however, it was delayed until the Auditor General's audit could be completed. <u>DPA RESPONSE</u> Due to Pilsen Little Village's relatively small Medicaid set rate fee for service payments, $38,958, it was not considered high risk and consequently not scheduled for audit. Normally, the estimated audit costs, approximating $8,200, would be weighed against the $38,958 cost being controlled. However, the Department will accept the recommendations of the auditors. The Bureau of Medical Quality Assurance will conduct an audit of Pilsen Little Village to determine if medical and other documentation meets DPA's requirements for payment. <u>DCFS RESPONSE</u> Our on-going processes of evaluating service provider effectiveness, and forecasting client service needs geographically, have already resulted in decreases in our reliance on Pilsen/Little Village as a contractual service provider. For example, our current Purchase of Service contract with Pilsen/Little Village is at the $45,000 level compared to the $94,942 in FY99, and the $149,305 in FY98, contracts cited in your report. We intend to examine your findings and re-review FY97 and FY98 Pilsen/Little Village cost reports and A-133 audit reports to determine if there are justifications for cost recoveries beyond the $6,843 disallowance and recovery we previously effected as noted in your report.

Appendix A
ILLINOIS HOUSE OF REPRESENTATIVES
RESOLUTION NUMBER 385

STATE OF ILLINOIS
NINETIETH GENERAL ASSEMBLY
HOUSE OF REPRESENTATIVES

House Resolution No 385

Offered by Representative Acevedo

WHEREAS, *The State of Illinois will spend over $1 billion in FY 98 on private care for the mentally ill and developmentally disabled; and*

WHEREAS, *The State has little oversight over how these funds are expended once they are disbursed; and*

WHEREAS, *The State provides organizations administering private facilities for the mentally ill and developmentally disabled with funds; and*

WHEREAS, *Pilsen-Little Village Community Mental Health Center, Inc., located at 2319 South Damen Avenue, Chicago, Illinois has contracted with the State through the Department of Human Services and its predecessor agencies to provide services to certain citizens of Illinois, including medical, social, and counseling services to the mentally ill; and*

WHEREAS, *An analysis of Pilsen-Little Village Community Mental Health Center, Inc.'s financial statements indicated potential difficulties of the Center in meeting both short-term and long-term obligations; and*

WHEREAS, *The same analysis revealed that the Center may have to pay back funds to the State due to underutilization of the funds or questionable funds received from the State; therefore be it*

RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE NINETIETH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, *that the Auditor General is directed to conduct an audit of Pilsen-Little Village Community Mental Health Center, Inc. to determine whether funds received by the Center have been spent according to applicable State law, regulations, contracts, and grants; and be it further*

RESOLVED, *That the Auditor General is specifically authorized to review and publicly report on any books. records, revenues, expenditures, policies and procedures, and other relevant aspects of entities administering services for people with mental illness which are funded in whole or in part by State funds, and such entities, as well as any State or other entities that may have information relevant to the audit, are directed to cooperate fully and promptly with the Office of the Auditor General in the conduct of the audit; and be It further*

RESOLVED, *That the Auditor General commence this audit as soon as possible and report his findings and recommendations upon completion in accordance with the provisions of the Illinois State Auditing Act; and be It further*

RESOLVED, *That a copy of this resolution be delivered to the Auditor General.*

Adopted by the House of Representatives on May 20, 1998.

Appendix B
PILSEN EXPENDITURE LEVELS BY COST CENTER
FISCAL YEARS 1997 AND 1998

APPENDIX B
PILSEN EXPENDITURE LEVELS BY COST CENTER: FY97 AND FY98

Expense Category	*FY97 Outpatient Mental Health*	*FY98 Outpatient Mental Health*	*Difference*	*FY97 Crisis Stabilization*	*FY98 Crisis Stabilization*	*Difference*
Salaries and Wages	$304,483.81	$300,995.00	-$3,488.81	$160,809.97	$208,202.23	$47,392.26
Employee Benefits	$34,965.12	$42,328.30	$7,363.18	$16,771.61	$8,674.61	-$8,097.00
Payroll Taxes	$21,474.18	$21,854.06	$379.88	$11,682.75	$15,440.49	$3,757.74
Other Benefits	$1,745.39	$1,440.44	-$304.95	$1,000.36	$774.53	-$225.83
Program Consultants	$14,202.50	$4,842.50	-$9,360.00	$0.00	$0.00	$0.00
Office Supplies	$1,944.28	$4,457.88	$2,513.60	$1,089.20	$1,267.36	$178.16
Recreation & Crafts	$992.31	$1,557.57	$565.26	$339.18	$479.45	$140.27
Food & Beverage	$586.50	$1,284.42	$697.92	$2,988.11	$8,414.32	$5,426.21
Housekeeping Supplies	$1,739.44	$939.45	-$799.99	$2,295.77	$2,768.28	$472.51
Program Support Supplies	$241.91	$391.25	$149.34	$112.38	$453.00	$340.62
Prop/Bldg Insurance	$1,376.16	$1,460.19	$84.03	$928.04	$1,006.25	$78.21
Elec/Heat/Other Utilities	$5,198.45	$4,879.93	-$318.52	$15,997.85	$14,819.67	-$1,178.18
Janitorial/Maintenance	$480.00	$480.00	$0.00	$385.00	$544.62	$159.62
Bldg/Grounds Maintenance	$7,564.69	$7,044.24	-$520.45	$2,603.34	$8,143.43	$5,540.09
Equipment Maintenance	$1,438.00	$2,075.00	$637.00	$3,310.07	$1,717.34	-$1,592.73
Property Taxes	$799.89	$1,858.92	$1,059.03	$546.71	$2,098.84	$1,552.13
Occupancy-Other	$352.99	$435.10	$82.11	$2,395.49	$2,051.40	-$344.09
Client Transportation	$0.00	$0.00	$0.00	$108.00	$108.00	$0.00
Staff Transportation	$99.30	$1,451.84	$1,352.54	$0.00	$259.40	$259.40
Other Transportation	$0.00	$83.33	$83.33	$0.00	$0.00	$0.00
Lease-Equipment	$1,141.63	$315.00	-$826.63	$2,560.56	$2,612.76	$52.20
Interest & Bank Charges	$17,630.46	$17,106.81	-$523.65	$17,125.36	$16,619.75	-$505.61
Telephone	$6,326.18	$7,099.10	$772.92	$3,976.21	$4,357.70	$381.49
Conf/Convention/Meetings	$609.57	$1,078.25	$468.68	$485.00	$225.00	-$260.00
Subscriptions	$71.95	$38.44	-$33.51	$71.95	$189.00	$117.05
Postage	$512.00	$320.00	-$192.00	$32.00	$0.00	-$32.00
Outside Printing	$513.40	$303.50	-$209.90	$0.00	$0.00	$0.00
Liability, Malpractice	$1,259.59	$1,380.47	$120.88	$610.51	$611.56	$1.05
Misc.-Other	$0.00	$0.00	$0.00	$87.80	$0.00	-$87.80
Office Expense	$1,000.60	$6,644.44	$5,643.84	$1,344.93	$1,763.92	$418.99
Client Medical Expenses	$0.00	$0.00	$0.00	-$0.42	$0.00	$0.42
Family Service/Mental Hlth	$23,389.31	$14,701.87	-$8,687.44	$0.00	$0.00	$0.00
F/A Purchases-Equipment	$500.00	$4,703.33	$4,203.33	$0.00	$0.00	$0.00
Depreciation-Equipment	$137.33	$512.81	$375.48	$2,465.12	$2,079.74	-$385.38
Amort. of Leasehold Imp.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Depreciation-Auto Equip.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Depreciation-Building	$7,221.95	$7,221.95	$0.00	$16,641.14	$16,641.15	$0.01
Administrative Allocation	$148,626.00	$133,585.00	-$15,041.00	$86,838.00	$84,932.00	-$1,906.00
TOTAL:	**$608,624.89**	**$594,870.39**	**-$13,754.50**	**$355,601.99**	**$407,255.80**	**$51,653.81**

Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers

Expense Category	*FY97 Vocational Rehabilitation Center*	*FY98 Vocational Rehabilitatio n Center*	*Difference*	*FY97 CILA*	*FY98 CILA*	*Difference*
Salaries and Wages	$142,662.51	$135,067.39	-$7,595.12	$366,569.49	$391,565.93	$24,996.44
Employee Benefits	$10,589.83	$4,623.33	-$5,966.50	$15,285.99	$15,964.69	$678.70
Payroll Taxes	$9,064.90	$10,290.28	$1,225.38	$28,311.73	$29,264.19	$952.46
Other Benefits	$728.64	$564.06	-$164.58	$2,000.07	$1,814.60	-$185.47
Program Consultants	$0.00	$9,240.25	$9,240.25	$0.00	$0.00	$0.00
Wages to Clients	$35,243.86	$10,843.42	-$24,400.44	$0.00	$0.00	$0.00
Interdept Transfer	-$69,220.80	-$25,720.00	$43,500.80	$69,220.80	$25,720.00	-$43,500.80
Office Supplies	$900.89	$1,247.35	$346.46	$1,918.75	$2,345.37	$426.62
Medicine/Drugs	$0.00	$0.00	$0.00	$273.93	$0.00	-$273.93
Recreation & Crafts	$1,017.95	$1,316.32	$298.37	$3,551.50	$4,121.13	$569.63
Food & Beverage	$919.79	$723.69	-$196.10	$28,611.95	$27,038.94	-$1,573.01
Housekeeping Supplies	$1,531.92	$2,200.65	$668.73	$3,490.54	$4,322.72	$832.18
Program Support Supplies	$762.84	$3,216.73	$2,453.89	$1,298.28	$4,004.87	$2,706.59
Prop/Bldg Insurance	$3,124.71	$1,719.50	-$1,405.21	-$313.41	$1,618.56	$1,931.97
Elec/Heat/Other Utilities	$8,686.69	$7,419.59	-$1,267.10	$8,442.15	$8,927.20	$485.05
Janitorial/Maintenance	$2,301.00	$2,109.78	-$191.22	$1,021.97	$1,228.63	$206.66
Bldg/Grounds Maintenance	$4,201.25	$8,952.71	$4,751.46	$6,249.28	$18,675.84	$12,426.56
Equipment Maintenance	$1,117.49	$75.00	-$1,042.49	$2,862.61	$979.99	-$1,882.62
Property Taxes	$2,605.27	$1,328.12	-$1,277.15	$0.00	$0.00	$0.00
Occupancy-Other	$1,310.32	$1,241.87	-$68.45	$2,534.32	$2,029.89	-$504.43
Vehicle Operating Costs	$1,608.22	$142.32	-$1,465.90	$4,420.95	$799.40	-$3,621.55
Client Transportation	$598.70	$176.00	-$422.70	$422.00	$1,012.46	$590.46
Staff Transportation	$143.40	$1,208.06	$1,064.66	$1,385.05	$3,080.94	$1,695.89
Other Transportation	$0.00	$226.15	$226.15	$500.00	$273.34	-$226.66
Lease-Equipment	$4,506.62	$4,219.20	-$287.42	$3,114.82	$3,341.50	$226.68
Lease-Auto Equipment	$0.00	$0.00	$0.00	$106.00	$119.75	$13.75
Lease Building	$8,670.00	$0.00	-$8,670.00	$61,755.00	$64,464.00	$2,709.00
Interest & Bank Charges	$12,594.61	$12,222.44	-$372.17	$0.00	$0.00	$0.00
Telephone	$3,110.23	$2,901.54	-$208.69	$6,285.82	$7,001.26	$715.44
Conf/Convention/Meetings	$1,747.50	$958.00	-$789.50	$2,663.85	$891.00	-$1,772.85
Subscriptions	$908.38	$155.25	-$753.13	$271.16	$120.94	-$150.22
Postage	$515.00	$32.00	-$483.00	$0.00	$0.00	$0.00
Outside Printing	$66.25	$0.00	-$66.25	$281.75	$200.70	-$81.05
Liability, Malpractice	$1,929.54	$2,042.09	$112.55	$1,140.60	$1,623.66	$483.06
Moving & Recruiting	$736.00	$846.00	$110.00	$300.00	$0.00	-$300.00
Misc.-Other	-$94.80	$730.00	$824.80	$5.60	$286.30	$280.70
Office Expense	$578.29	$1,887.95	$1,309.66	$5,854.99	$8,321.38	$2,466.39
Client Medical Expenses	$0.00	$0.00	$0.00	$1,305.03	$597.00	-$708.03
F/A Purchases-Equipment	$650.00	$412.71	-$237.29	$0.00	$212.77	$212.77
Depreciation-Equipment	$52,781.90	$2,187.93	-$50,593.97	$6,093.02	$6,663.50	$570.48
Amort. of Leasehold Imp.	$60,758.04	$0.00	-$60,758.04	$13,282.82	$13,282.81	-$0.01
Depreciation-Auto Equip.	$0.00	$0.00	$0.00	$2,483.33	$2,483.33	$0.00
Depreciation-Building	$5,818.07	$5,645.78	-$172.29	$0.00	$0.00	$0.00
Administrative Allocation	$94,483.00	$54,840.00	-$39,643.00	$218,335.00	$159,809.00	-$218,335.00
TOTAL:	**$409,658.01**	**$267,293.46**	**-$142,364.55**	**$871,336.74**	**$814,207.59**	**-$711,527.74**
Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers						

Expense Category	***FY97 Alcoholism Outpatient***	***FY98 Alcoholism Outpatient***	***Difference***	***FY97 Comprehensive Prevention***	***FY98 Comprehensive Prevention***	***Difference***
Salaries and Wages	$125,354.42	$139,476.78	$14,122.36	$23,450.44	$24,985.94	$1,535.50
Employee Benefits	$12,889.12	$11,132.04	-$1,757.08	$1,504.50	$1,340.49	-$164.01
Payroll Taxes	$13,510.52	$13,085.02	-$425.50	$1,834.31	$2,002.49	$168.18
Other Benefits	$662.18	$598.11	-$64.07	$150.42	$117.26	-$33.16
Office Supplies	$2,266.21	$1,016.19	-$1,250.02	$159.88	$1,492.51	$1,332.63
Recreation & Crafts	$174.00	$272.96	$98.96	$46.75	$181.67	$134.92
Food & Beverage	$152.61	$130.91	-$21.70	$59.32	$145.54	$86.22
Housekeeping Supplies	$686.24	$944.06	$257.82	$91.51	$115.23	$23.72
Program Support Supplies	$0.00	$203.28	$203.28	$93.02	$1,652.09	$1,559.07
Prop/Bldg Insurance	$335.53	$363.73	$28.20	$45.59	$164.60	$119.01
Elec/Heat/Other Utilities	$3,179.58	$3,386.85	$207.27	$613.47	$2,180.17	$1,566.70
Janitorial/Maintenance	$511.42	$556.45	$45.03	$86.40	$162.49	$76.09
Bldg/Grounds Maintenance	$6,406.35	$3,510.99	-$2,895.36	$78.88	$4,427.23	$4,348.35
Equipment Maintenance	$338.14	$1,183.20	$845.06	$404.32	$200.50	-$203.82
Property Taxes	$1,462.58	$762.08	-$700.50	$0.00	$1,407.33	$1,407.33
Occupancy-Other	$185.15	$275.55	$90.40	$71.17	$21.27	-$49.90
Vehicle Operating Costs	$0.00	$0.00	$0.00	$0.00	$81.77	$81.77
Staff Transportation	$56.11	$58.00	$1.89	$728.50	$14.50	-$714.00
Lease-Equipment	$86.25	$172.93	$86.68	$465.36	$444.78	-$20.58
Lease Building	$0.00	$0.00	$0.00	$4,740.00	$0.00	-$4,740.00
Interest & Bank Charges	$4,905.07	$4,711.22	-$193.85	$0.00	$3,477.81	$3,477.81
Telephone	$1,565.25	$1,366.90	-$198.35	$399.34	$911.41	$512.07
Conf/Convention/Meetings	$318.60	$0.00	-$318.60	$687.93	$701.43	$13.50
Subscriptions	$20.87	$0.00	-$20.87	$0.00	$29.00	$29.00
Postage	$96.00	$128.00	$32.00	$177.75	$126.81	-$50.94
Outside Printing	$317.07	$146.43	-$170.64	$8.67	$108.23	$99.56
Membership Dues	$1,139.30	$383.32	-$755.98	$306.00	$88.50	-$217.50
Liability, Malpractice	$731.03	$829.71	$98.68	$110.89	$251.77	$140.88
Misc.-Other	$13.05	$0.00	-$13.05	$0.00	$0.00	$0.00
Office Expense	$119.60	$514.57	$394.97	$101.16	$526.00	$424.84
F/A Purchases-Equipment	$0.00	$0.00	$0.00	$0.00	$66.50	$66.50
Depreciation-Equipment	$1,749.30	$1,119.63	-$629.67	$12.24	$180.30	$168.06
Amort. of Leasehold Imp.	$0.00	$0.00	$0.00	$295.60	$0.00	-$295.60
Depreciation-Building	$1,810.47	$1,810.47	$0.00	$0.00	$1,792.52	$1,792.52
Administrative Allocation	$58,495.00	$59,832.00	$1,337.00	$11,382.00	$10,335.00	-$1,047.00
TOTAL:	**$239,537.02**	**$247,971.38**	**$8,434.36**	**$48,105.42**	**$59,733.14**	**$11,627.72**
Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers						

Expense Category	FY97 MI/SA	FY98 MI/SA	Difference	FY97 Methadone Treatment	FY97 Methadone Treatment	Difference
Salaries and Wages	$77,117.78	$96,366.36	$19,248.58	$264,607.56	$298,680.99	$34,073.43
Employee Benefits	$11,917.31	$9,760.13	-$2,157.18	$30,795.04	$23,438.23	-$7,356.81
Payroll Taxes	$11,650.84	$5,187.52	-$6,463.32	$25,217.27	$35,466.78	$10,249.51
Other Benefits	$457.53	$377.38	-$80.15	$1,505.87	$1,264.19	-$241.68
Office Supplies	$210.28	$550.80	$340.52	$1,344.72	$1,771.03	$426.31
Medicine/Drugs	$0.00	$0.00	$0.00	$18,269.04	$26,064.65	$7,795.61
Recreation & Crafts	$108.00	$207.23	$99.23	$317.51	$487.55	$170.04
Food & Beverage	$94.73	$81.19	-$13.54	$278.91	$239.21	-$39.70
Housekeeping Supplies	$636.50	$585.94	-$50.56	$1,518.27	$1,725.41	$207.14
Program Support Supplies	$71.34	$188.68	$117.34	$266.03	$596.19	$330.16
Prop/Bldg Insurance	$208.26	$225.76	$17.50	$613.21	$664.75	$51.54
Elec/Heat/Other Utilities	$1,973.50	$2,102.17	$128.67	$5,635.81	$5,917.68	$281.87
Janitorial/Maintenance	$300.50	$345.40	$44.90	$884.84	$1,052.48	$167.64
Bldg/Grounds Maintenance	$4,056.23	$2,260.03	-$1,796.20	$12,152.54	$6,335.93	-$5,816.61
Equipment Maintenance	$209.88	$734.40	$524.52	$1,202.98	$2,162.40	$959.42
Property Taxes	$907.82	$473.00	-$434.82	$2,673.02	$1,392.77	-$1,280.25
Occupancy-Other	$131.80	$171.04	$39.24	$388.19	$503.56	$115.37
Staff Transportation	$1,831.58	$756.60	-$1,074.98	$177.88	$148.90	-$28.98
Lease-Equipment	$78.74	$160.34	$81.60	$116.23	$168.55	$52.32
Interest & Bank Charges	$3,044.57	$2,924.22	-$120.35	$9,021.07	$8,624.87	-$396.20
Other Management	$0.00	$0.00	$0.00	$70.00	$70.00	$0.00
Telephone	$971.53	$944.30	-$27.23	$2,860.50	$3,395.31	$534.81
Conf/Convention/Meetings	$410.75	$292.00	-$118.75	$622.40	$0.00	-$622.40
Subscriptions	$12.95	$143.62	$130.67	$93.33	$0.00	-$93.33
Postage	$127.59	$96.00	-$31.59	$223.02	$160.00	-$63.02
Outside Printing	$62.28	$34.53	-$27.75	$206.85	$180.66	-$26.19
Membership Dues	$794.82	$248.58	-$546.24	$2,981.88	$1,192.52	-$1,789.36
Liability, Malpractice	$453.74	$514.99	$61.25	$1,336.01	$1,516.37	$180.36
Misc.-Other	$8.10	$0.00	-$8.10	$6.65	-$17.20	-$23.85
Office Expense	$577.00	$528.56	-$48.44	$3,502.19	$17,701.78	$14,199.59
Client Medical Expenses	$165.08	$0.00	-$165.08	$0.00	$0.00	$0.00
F/A Purchases-Equipment	$0.00	$0.00	$0.00	$895.00	$980.00	$85.00
Depreciation-Equipment	$670.80	$694.94	$24.14	$7,633.89	$7,577.26	-$56.63
Depreciation-Building	$1,123.74	$1,123.74	$0.00	$3,308.80	$3,308.81	$0.01
Administrative Allocation	$38,896.00	$40,708.00	$1,812.00	$129,533.00	$130,702.00	$1,169.00
TOTAL:	**$159,281.57**	**$168,787.45**	**$9,505.88**	**$530,259.51**	**$583,473.63**	**$53,214.12**

Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers

Expense Category	*FY97 HIV/AIDS*	*FY98 HIV/AIDS*	*Difference*	*FY97 HIV/AIDS CDC*	*FY98 HIV/AIDS CDC*	*Difference*
Salaries and Wages	$99,883.55	$193,746.36	$93,862.81	$92,572.38	$5,340.01	-$87,232.37
Employee Benefits	$6,039.15	$7,491.29	$1,452.14	$7,552.88	$86.09	-$7,466.79
Payroll Taxes	$7,129.33	$14,678.12	$7,548.79	$6,759.76	$257.65	-$6,502.11
Other Benefits	$611.95	$537.65	-$74.30	$674.57	$359.60	-$314.97
Program Consultants	$1,044.00	$0.00	-$1,044.00	$2,436.00	$0.00	-$2,436.00
Consultants-Auditors	$0.00	$0.00	$0.00	$3,000.00	$0.00	-$3,000.00
Consultants-Other	$600.00	$0.00	-$600.00	$1,400.00	$0.00	-$1,400.00
Office Supplies	$394.86	$1,447.93	$1,053.07	$541.03	$0.00	-$541.03
Recreation & Crafts	$213.00	$2,328.23	$2,115.23	-$50.00	$0.00	$50.00
Food & Beverage	$2,168.86	$675.17	-$1,493.69	$0.00	$0.00	$0.00
Housekeeping Supplies	$242.44	$195.82	-$46.62	$432.38	$0.00	-$432.38
Program Support Supplies	$210.36	$4,821.07	$4,610.71	$3,109.81	$9,276.69	$6,166.88
Prop/Bldg Insurance	$24.12	$74.68	$50.56	$56.27	$0.00	-$56.27
Elec/Heat/Other Utilities	$1,514.73	-$1,144.86	-$2,659.59	$2,795.73	$262.47	-$2,533.26
Janitorial/Maintenance	$697.00	$303.20	-$393.80	$1,424.00	$0.00	-$1,424.00
Bldg/Grounds Maintenance	$5,271.31	$8,733.83	$3,462.52	$9,724.37	$153.75	-$9,570.62
Equipment Maintenance	$527.18	$1,303.95	$776.77	$527.18	$0.00	-$527.18
Occupancy-Other	$106.35	$302.06	$195.71	$176.15	$0.00	-$176.15
Client Transportation	$600.00	$1,200.00	$600.00	$0.00	$0.00	$0.00
Staff Transportation	$2,120.19	$4,678.00	$2,557.81	$663.95	$0.00	-$663.95
Other Transportation	$0.00	$175.00	$175.00	$0.00	$0.00	$0.00
Lease-Equipment	$1,058.49	$2,834.99	$1,776.50	$1,816.36	$24.60	-$1,791.76
Lease Building	$12,039.30	$25,057.62	$13,018.32	$18,389.70	$1,190.70	-$17,199.00
Interest & Bank Charges	$1.35	$0.00	-$1.35	$3.15	$0.00	-$3.15
Telephone	$1,138.83	$3,972.69	$2,833.86	$1,925.76	$0.00	-$1,925.76
Conf/Convention/Meetings	$128.25	$314.00	$185.75	$2,442.77	$150.00	-$2,292.77
Subscriptions	$431.00	$164.76	-$266.24	$27.45	$0.00	-$27.45
Postage	$242.18	$419.20	$177.02	$221.40	$0.00	-$221.40
Outside Printing	$254.48	$533.27	$278.79	$77.00	$1,000.00	$923.00
Membership Dues	$35.00	$35.00	$0.00	$0.00	$0.00	$0.00
Liability, Malpractice	$62.18	$111.44	$49.26	$145.08	$0.00	-$145.08
Office Expense	$322.50	$2,360.45	$2,037.95	$6.64	$0.00	-$6.64
Individual Assistance	$5,715.68	$11,921.37	$6,205.69	$0.00	$0.00	$0.00
Client Medical Expenses	$0.00	$425.84	$425.84	$0.00	$0.00	$0.00
F/A Purchases-Equipment	$0.00	$245.18	$245.18	$0.00	$0.00	$0.00
Depreciation-Equipment	$637.89	$794.59	$156.70	$770.39	$0.00	-$770.39
Amort. of Leasehold Imp.	$7,226.50	$6,035.07	-$1,191.43	$0.00	$0.00	$0.00
Administrative Allocation	$4,841.00	$12,087.00	$7,246.00	$44,175.00	$4,730.00	-$39,445.00
TOTAL:	**$163,533.01**	**$308,859.97**	**$145,326.96**	**$203,797.16**	**$22,831.56**	**-$180,965.60**

Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers

Expense Category	***FY97 Family Systems***	***FY98 Family Systems***	***Difference***	***FY97 Administration***	***FY98 Administration***	***Difference***
Salaries and Wages	$103,377.29	$96,493.25	-$6,884.04	$559,149.02	$390,857.78	-$168,291.24
Employee Benefits	$9,339.84	$7,514.39	-$1,825.45	$48,999.26	$42,545.84	-$6,453.42
Payroll Taxes	$7,515.46	$7,484.11	-$31.35	$35,671.96	$34,737.43	-$934.53
Other Benefits	$517.88	$473.52	-$44.36	$2,909.78	$2,486.08	-$423.70
Program Consultants	$0.00	$0.00	$0.00	$8,895.00	$3,095.00	-$5,800.00
Consultants-Auditors	$0.00	$0.00	$0.00	$23,000.00	$23,500.00	$500.00
Consultants-Other	$0.00	$0.00	$0.00	$12,749.28	$2,362.45	-$10,386.83
Wages to Clients	$0.00	$0.00	$0.00	$0.00	$25.00	$25.00
Office Supplies	$536.14	$862.49	$326.35	$13,454.18	$17,322.90	$3,868.72
Recreation & Crafts	$318.45	$618.16	$299.71	$675.00	$4,088.50	$3,413.50
Food & Beverage	$175.09	$395.51	$220.42	$19,787.85	$8,334.90	-$11,452.95
Housekeeping Supplies	$271.98	$412.37	$140.39	$2,136.25	$1,036.80	-$1,099.45
Program Support Supplies	$210.00	$101.53	-$108.47	$142.68	$940.00	$797.32
Prop/Bldg Insurance	$136.76	$250.19	$113.43	$1,514.17	$1,481.40	-$32.77
Elec/Heat/Other Utilities	$1,816.54	$3,880.55	$2,064.01	$16,960.20	$8,244.48	-$8,715.72
Janitorial/Maintenance	$256.00	$560.00	$304.00	$2,056.99	$1,214.38	-$842.61
Bldg/Grounds Maintenance	$231.96	$1,810.79	$1,578.83	$27,195.61	$38,230.17	$11,034.56
Equipment Maintenance	$1,195.55	$997.40	-$198.15	$9,049.16	$4,998.90	-$4,050.26
Property Taxes	$0.00	$0.00	$0.00	$27,062.99	$12,717.89	-$14,345.10
Occupancy-Other	$218.47	$257.26	$38.79	$312.88	$207.45	-$105.43
Vehicle Operating Costs	$0.00	$0.00	$0.00	$2,399.10	$1,317.58	-$1,081.52
Staff Transportation	$633.83	$415.55	-$218.28	$2,380.96	$6,378.08	$3,997.12
Lease-Equipment	$1,482.63	$2,549.46	$1,066.83	$2,824.76	$4,798.75	$1,973.99
Lease-Auto Equipment	$0.00	$0.00	$0.00	$5,955.58	$12,382.16	$6,426.58
Lease Building	$8,100.00	$18,000.00	$9,900.00	$0.00	$0.00	$0.00
Interest & Bank Charges	$0.00	$0.00	$0.00	$40,568.56	$53,256.57	$12,688.01
Other Management	$0.00	$0.00	$0.00	$4,421.55	$9,720.47	$5,298.92
Telephone	$1,182.09	$2,249.59	$1,067.50	$12,987.26	$15,866.00	$2,878.74
Conf/Convention/Meetings	$85.00	$231.25	$146.25	$3,722.73	$12,686.54	$8,963.81
Subscriptions	$28.75	$0.00	-$28.75	$1,201.54	$639.44	-$562.10
Postage	$91.31	$96.00	$4.69	$3,900.46	$3,552.11	-$348.35
Outside Printing	$25.50	$0.00	-$25.50	$489.51	$629.60	$140.09
Membership Dues	$0.00	$0.00	$0.00	$390.00	$610.00	$220.00
Liability, Malpractice	$326.14	$658.05	$331.91	$4,626.44	$4,647.99	$21.55
Moving & Recruiting	$0.00	$0.00	$0.00	$30.00	$0.00	-$30.00
Misc.-Other	$0.00	$0.00	$0.00	$120.00	$122.47	$2.47
Office Expense	$54.29	$893.36	$839.07	$12,806.69	$19,558.29	$6,751.60
F/A Purchases-Equipment	$0.00	$0.00	$0.00	$500.00	$3,725.55	$3,225.55
Recreation Equipment	$0.00	$0.00	$0.00	$600.00	$0.00	-$600.00
Leasehold Improvements	$0.00	$0.00	$0.00	$0.00	$530.96	$530.96
Depreciation-Equipment	$35.99	$332.14	$296.15	$21,648.10	$20,762.50	-$885.60
Amort. of Leasehold Imp.	$886.80	$1,478.00	$591.20	$0.00	$0.00	$0.00
Depreciation-Building	$0.00	$0.00	$0.00	$15,475.24	$16,132.72	$657.48
Administrative Allocation	$35,138.00	$29,803.00	-$5,335.00	-$926,647.00	-$754,698.00	$171,949.00
TOTAL:	**$174,187.74**	**$178,817.92**	**$4,630.18**	**$22,123.74**	**$31,047.13**	**$8,923.39**
Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers						

Expense Category	FY97 Door to Door	FY98 Door to Door	Difference	FY97 DUI	FY98 DUI	Difference
Salaries and Wages	$55,108.66	$26,856.53	-$28,252.13	$37,455.47	$39,493.86	$2,038.39
Employee Benefits	$4,330.78	$480.63	-$3,850.15	$3,504.94	$2,008.03	-$1,496.91
Payroll Taxes	$4,162.35	$2,069.47	-$2,092.88	$2,804.18	$6,383.65	$3,579.47
Other Benefits	$450.25	$225.51	-$224.74	$179.96	$179.12	-$0.84
Office Supplies	$656.00	$305.18	-$350.82	$936.88	$1,649.99	$713.11
Recreation & Crafts	$150.61	$13.50	-$137.11	$0.00	$0.00	$0.00
Food & Beverage	$1,090.25	$347.61	-$742.64	$0.00	$0.00	$0.00
Housekeeping Supplies	$154.55	$42.99	-$111.56	$0.00	$0.00	$0.00
Program Support Supplies	$1,853.75	$388.28	-$1,465.47	$0.00	$0.00	$0.00
Prop/Bldg Insurance	$45.59	$16.39	-$29.20	$0.00	$0.00	$0.00
Elec/Heat/Other Utilities	$1,144.47	-$327.74	-$1,472.21	$0.00	$0.00	$0.00
Janitorial/Maintenance	$171.60	$136.80	-$34.80	$0.00	$0.00	$0.00
Bldg/Grounds Maintenance	$579.85	$1,888.47	$1,308.62	$16.18	$0.00	-$16.18
Equipment Maintenance	$821.50	$256.60	-$564.90	$0.00	$0.00	$0.00
Occupancy-Other	$131.74	$64.27	-$67.47	$0.00	$0.00	$0.00
Client Transportation	$0.00	$500.00	$500.00	$0.00	$0.00	$0.00
Staff Transportation	$600.50	$663.70	$63.20	$0.00	$0.00	$0.00
Other Transportation	$275.00	$0.00	-$275.00	$0.00	$0.00	$0.00
Lease-Equipment	$940.39	$630.36	-$310.03	$59.40	$59.40	$0.00
Lease Building	$6,483.00	$5,503.68	-$979.32	$0.00	$0.00	$0.00
Interest & Bank Charges	$0.00	$4.50	$4.50	$0.00	$0.00	$0.00
Other Management	$0.00	$0.00	$0.00	$200.00	$0.00	-$200.00
Telephone	$774.55	$888.34	$113.79	$0.00	$0.00	$0.00
Conf/Convention/Meetings	$2,087.21	$225.00	-$1,862.21	$383.00	$125.00	-$258.00
Subscriptions	$0.00	$0.00	$0.00	$159.95	$199.70	$39.75
Postage	$37.42	$60.80	$23.38	$32.00	$32.00	$0.00
Outside Printing	$54.83	$226.06	$171.23	$60.25	$91.00	$30.75
Membership Dues	$250.00	$0.00	-$250.00	$332.00	$150.64	-$181.36
Liability, Malpractice	$215.25	$24.46	-$190.79	$0.00	$0.00	$0.00
Misc.-Other	$100.00	$4.35	-$95.65	$0.00	$0.00	$0.00
Office Expense	$169.65	$225.00	$55.35	$68.20	$404.09	$335.89
F/A Purchases-Equipment	$0.00	$53.82	$53.82	$0.00	$0.00	$0.00
Depreciation-Equipment	$23.75	$174.42	$150.67	$0.00	$0.00	$0.00
Amort. of Leasehold Imp.	$315.94	$1,324.77	$1,008.83	$0.00	$0.00	$0.00
Administrative Allocation	$12,220.00	$5,001.00	-$7,219.00	$14,925.00	$17,507.00	$2,582.00
TOTAL:	**$95,399.44**	**$48,274.75**	**-$47,124.69**	**$61,117.41**	**$68,283.48**	**$7,166.07**
Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers						

Expense Category	***FY97 LAN/EPS***	***FY98 LAN/EPS***	***Difference***
Salaries and Wages	$27,997.45	$25,958.50	-$2,038.95
Employee Benefits	$1,504.67	$1,741.28	$236.61
Payroll Taxes	$2,041.97	$1,993.44	-$48.53
Other Benefits	$147.66	$127.41	-$20.25
Staff Transportation	$393.00	$152.40	-$240.60
Lease-Equipment	$59.40	$59.40	$0.00
Conf/Convention/Meetings	$0.00	$100.00	$100.00
Postage	$0.00	$32.00	$32.00
Office Expense	$0.00	$540.00	$540.00
Individual Assistance	$29,480.36	$0.00	-$29,480.36
Client Medical Expenses	$27,390.23	$0.00	-$27,390.23
Administrative Allocation	$28,760.00	$10,827.00	-$17,933.00
TOTAL:	**$117,774.74**	**$41,531.43**	**-$76,243.31**
Source: OAG Summary of Pilsen FY97 and FY98 General Ledgers			

Appendix C
MONITORING OF PILSEN OPERATIONS
FISCAL YEARS 1997 AND 1998

APPENDIX C
MONITORING ACTIVITIES OF PILSEN OPERATIONS

DEPARTMENT OF HUMAN SERVICES

Within 45 days of the end of the State fiscal year, all grant funded providers must submit a Grant Spending Status Confirmation of the amounts spent and received. Providers such as Pilsen, receiving funding in excess of $300,000, must have an Independent CPA opinion on financial statements and Supplemental Schedules in the format of the Consolidated Financial Report, and must meet Federal Circular A-133 requirements.

Bureau of Contract Compliance: The DHS *Audit Review Section* is responsible for the monitoring of community service providers' compliance with financial reporting requirements. The Section's intent is to provide a reasonable assurance that State and Federal funds awarded to community service providers are accounted for and that funds are returned to the Department, either as a refund or as a recovery through future services if funds are unused, misused, or misappropriated.

Desk reviews of the audited financial statements are prepared by this Section. The review consists of examining the audited financial statements to determine if there are any financial issues raised which warrant further review. On-site reviews are conducted by the Provider Review Section for between 100-120 providers a year (there are some 3,000 community providers that DHS oversees). Risk profiles drive which site reviews are selected. The largest risk factor considered is expenditure levels. Pilsen was not chosen for a site visit during either Fiscal Year 1997 or 1998 by the Audit Review Section.

Office of Accreditation, Licensure, and Certification: The Office reviews providers for compliance with State laws, investigates any complaints made toward a provider, and generally examines life-safety issues. Pilsen is licensed by this Office for expenditures in its Medicaid, CILA, and Substance Abuse programs. A comprehensive review resulting in an agency's accreditation, licensure, or certification is conducted at agencies every 3 years. A focus audit is conducted in the other 2 years by the Office's Bureau of Surveys, examining the specific areas where violations were discovered. Pilsen, as well as all the providers, must respond to violations with a Plan of Correction.

For the past two years the Office has conducted site reviews at Pilsen's CILA and a post-payment audit of Medicaid billings. These reviews were performed in early December. For the most recent reviews (conducted on December 2 & 9, 1998) DHS sampled Medicaid and CILA records, noting the following:

- ⇒ 72 percent of the bills were substantiated (sufficient documentation to support payment) for testing associated with the Medicaid Alcoholism and Substance Abuse Program—with $1,485.29 disallowed from the sampled billings.

⇒ 93 percent of the bills were substantiated (sufficient documentation to support payment) for testing associated with the Medicaid Mental Health Services Program—with $1,629.31 disallowed from the sampled billings.

⇒ The CILA program was cited for various issues, including file documentation and training issues for staff working at the residential facility.

The amount disallowed is based on the services provided for the cases sampled and is not projected to the entire population of Medicaid cases. The Office of Accreditation and Licensure staff stated that due to current caseloads they do not have the staff to sample a statistically significant number of cases to project to the entire population.

Bureau of Monitoring, Technical Assistance and Support: Within the Office of Alcoholism and Substance Abuse (OASA), the Bureau of Monitoring, Technical Assistance and Support, annually reviews 138 funded methadone providers through site visits. The Bureau also reviews a minimum of 10 case files to assess if the service recipients are meeting established goals of their treatment plans.

During the site visit in February 1998, the Bureau examined 12 case files and noted no exceptions. A utilization review is performed at the end of the fiscal year to determine if the agency has spent the grant's contracted service funds.

Pilsen files weekly reports of provided services through OASA's DARTS system. A year-end DARTS summary report allows OASA staff to determine if Pilsen has underutilized State funds, although such a scenario has not yet occurred.

Medication audits are also conducted by this Bureau which deal with an inventory of the Methadone program. When conducting the medication audit, an auditor records the ending inventory and reviews receipts of methadone since the previous audit. In the 1997 site visit, auditors noted a small discrepancy that was below the State's acceptable accountability standard. Additionally, in the file review it was noted that toxicology reviews were not always performed—which violates an FDA regulation. The 1998 site visit noted that the provider lacked some policies and procedures for conflict of interest guidelines.

In the case of the Methadone program, the federal Drug Enforcement Administration monitors the security and accountability of the narcotic treatment plan.

Bureau of Organizational Development: The Office of Mental Health (Metro West Network) monitors contract development and implementation of the Community Grant System. The Office monitors 210 community mental health providers that receive a total allocation of $306 million; $19 million is allocated to Pilsen's Metro West Area. Agencies are audited twice a year: desk audits are completed in the fall; comprehensive on-site visits are conducted each spring when contract negotiations occur.

The FY98 site visit was conducted May 13, 1998 and noted exceptions in the lack of documentation for linkage case management and a negative variance for the Vocational Rehabilitation Center.

Variance analysis performed by the Metro West staff is simply the percentage of service units provided as compared to the budgeted service units. Providers can have a negative variance of up to 15 percent without DHS intervention. When reviewing negative variances with providers, current statistics and staff turnover are taken into account.

DEPARTMENT OF PUBLIC AID

Bureau of Medical Quality Assurance (BMQA): Within the Department's Office of Inspector General, this division annually conducts 350 medical provider audits. Pilsen is categorized as one of 617 Mental Health Service Providers, and one of 64,900 total providers monitored by BMQA. Six bureau analysts prioritize report selection by analyzing risk area information dispensed by the Surveillance Utilization Review Subsystem. Factors exceeding established parameters may alert analysts to high-risk providers. Bureau officials stated that with the exception of quality-of-care issues, audit selection involves primarily selecting a sample of providers that comprise a statistically valid portion of total expenditures, services provided, and other factors included in the analysis. Due to Pilsen's relatively small fee-for-service billings and comparative expenditures, it is not considered a high-risk provider and thus not audited by BMQA.

DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Office of Internal Audits: Internal Audits is supposed to perform a desk review of the Pilsen audited financial statements on a yearly basis. Due to backlogs, the last review was for a two-year period (years ended June 30, 1996 and June 30, 1997) and was completed in June of 1998. The review is an analysis of whether funds were not utilized and reliance is placed on the certified financial statements. Internal Audits has not gone on-site in the past five years to review Pilsen expenditures claimed on the financial statements.

The review for FY97 identified excess program revenues of $6,843 which DCFS requested from Pilsen and subsequently received.

Cook Central Region Administrative Services: This regional Office reviews Pilsen from a financial standpoint. On a monthly basis, the Office reviews the bills submitted by Pilsen to verify the accuracy of the rates and that there are sufficient funds in the contract to pay the bill. These reviews are basically desk reviews and the Office does not review the appropriateness of expenditures made with Department funds—nor do they typically go out to review files to see if services were actually provided.

On a quarterly basis the Office meets with regional contractors/providers to discuss any issues in an open forum. The purpose is to review the contract with the provider and obtain statistical information on clients served. The last quarterly review at Pilsen was conducted for the 1st quarter of FY99. The review prior to that was conducted in May of 1997.

The results of these and other monitoring efforts and filings are summarized in the following table.

SUMMARY OF MONITORING OF PILSEN OPERATIONS Fiscal Years 1997 and 1998				
Date	**Agency**	**Frequency**	**Type of Review**	**Results**
10/30/96	Attorney General	Annual	990 Filing with Attorney General to Comply with the Charitable Trust Act.	No exception noted.
10/4/96	DHS - OASA	Periodic	On-site survey of service by Department of Alcoholism and Substance Abuse addressing the DUI program (non-state funded).	Personnel files reviewed for proper documentation.
2/26/97	DHS	Annual	Lapsed Fund Analysis.	Identified over $62,000 in lapsed funds due the State of Illinois. Money to be recovered from offset in FY97.
2/26/97 and 2/27/97	DHS	Annual	CILA Accreditation: On-site survey.	Four records reviewed, noting that monthly notes were general in nature and in one record no stated goals and objectives were in the Individual Service Plan. Corrective Action Plan submitted 3/27/97.
2/26/97 and 2/27/97	DHS	Annual	Medicaid Accreditation: On-site survey.	Reviewed 10 case files. Noted an overall lack of documentation. Corrective Action Plan submitted 3/27/97.
3/6/97 and 3/7/97	DHS - OASA	Annual	Office of Alcoholism and Substance Abuse Medication Audit: Inventory audit of methadone.	Audit noted an acceptable deviation of less than 1%. Also examined policies and procedures in place for the disbursement of methadone.
5/5/97	Secretary of State	Annual	Annual Report filed with Secretary of State to comply with General Not-For-Profit Corporation Act.	No exception noted.
10/24/97	Pilsen Mental Health Center	Annual	FY97 unqualified opinion on annual financial statements, compliance, and internal control as required by Government Auditing Standards and OMB A-133.	Financial statements noted a lack of segregation of duties in the processing of disbursements.
11/1/97	Commission on Accreditation of Rehabilitation Facilities(CARF)	3 Years	CARF Accreditation.	Reviewed organizational structure, strategic planning, and applicable policies and procedures. Pilsen certified for a 3-year period.
12/12/97	Attorney General	Annual	990 Filing with Attorney General to Comply with the Charitable Trust Act.	No exception noted.

Date	Agency	Frequency	Type of Review	Results
12/2/97 and 12/3/97	DHS	Annual	CILA Accreditation.	Corrective Action Plan submitted 1/28/98 included additional staff training.
12/2/97 and 12/3/97	DHS	Annual	Medicaid Accreditation -17 files reviewed. Record keeping not sufficient. Clinical records not sufficient. Individual Service Plans not updated.	Corrective Action Plan submitted 1/28/98 included additional staff training. Also, Individual Treatment Plans will be developed within 45 days after completion of Mental Health Assessment.
2/23/98	DHS - OASA	Annual	Office of Alcoholism and Substance Abuse Site Visit Performance Review concentrated on policies and procedures, quality of care, and compliance with Rule 2030.	Examined 12 case files for initial assessment, individual treatment plan, and progress notes. Also examined policies in place for security measures, plans, and precautions.
3/26/98	DHS	Annual	Lapsed Fund Analysis.	No lapse of state funds identified in the report.
3/26/98	DHS	Annual	Desk Review of Annual Report performed by Office of Contract Administration.	Noted possible difficulties in meeting short and long term obligations. Under utilization of funds identified at $116,550 by the outside auditor.
5/13/98	DHS	Annual	Office of Mental Health: Annual Site Visit.	Case management services provided but documentation lacking. Medicaid pay back of $2,401 noted. Contract negotiations for FY99 conducted.
6/24/98	DCFS	Annual	Department of Children and Family Services: Desk Reviews.	Audited financial statements indicated that Pilsen may be unable to continue operations as evidenced by current liabilities exceeding current assets. Review identified $6,843 of excess revenues.
6/4/98	Secretary of State	Annual	Annual Report filed with Secretary of State to comply with General Not-For-Profit Corporation Act.	No exception noted.
7/31/98	DHS - Metro West	Annual	FY98 measurement of variance in established goals for the Assertive Community Treatment program.	Pilsen met established goals.
11/2/98	Pilsen Mental Health Center	Annual	FY98 Unqualified opinion on annual financial statements, compliance, and internal control as required by Government Auditing Standards and OMB A-133.	No findings noted.
12/23/98	DHS	Annual	FY98 Desk Review and Lapsed Fund Analysis.	Review noted excess of $75,000 over-allocated to DHS administrative costs.

Appendix D
PILSEN CHARITABLE ORGANIZATION SUPPLEMENT
FISCAL YEAR 1998

Form AG990-IL
Revised 3/95

CHARITABLE ORGANIZATION SUPPLEMENT

Attorney General JIM RYAN State of Illinois

Charitable Trust and Solicitations Bureau 100 West Randolph Street, 11th Floor, Chicago, Illinois 60601-3175

CO # 01-008,458

REPORT FOR THE FISCAL PERIOD BEGINNING: (MO DAY YR) 07/01/97 AND ENDING: (MO DAY YR) 06/30/98

ARE CONTRIBUTIONS TO ORGANIZATION TAX DEDUCTIBLE? [X] Yes [ ] No

FEDERAL ID NUMBER: # 36-2836998

LEGAL NAME: PILSEN-LITTLE VILLAGE COMMUNITY MENTAL HEALTH CENTER, INC.
MAIL ADDRESS: 2319 SOUTH DAMEN AVENUE
CITY, STATE: CHICAGO, IL
ZIP CODE: 60608

DATE ORGANIZATION WAS CREATED (MO DAY YR): 06/01/75
A) ASSETS: A) $ 1,717,140.
B) LIABILITIES: B) $ 1,350,434.
C) ENDING FUND BALANCE: C) $ 366,706.

RECEIVED
DEC 29 1998
ATTORNEY GENERAL
CHARITABLE TRUST

	PERCENTAGE	AMOUNT
I. SUMMARY OF REVENUE ITEMS DURING THE YEAR:		
D) PUBLIC SUPPORT, CONTRIBUTIONS PROGRAM SERV. REV. (GROSS AMTS.)	18.886%	D) $ 701,099.
E) GOVERNMENT GRANTS & MEMBERSHIP DUES	79.823%	E) $ 2,963,178.
F) OTHER REVENUES	1.291%	F) $ 47,931.
G) TOTAL REVENUE, INCOME AND CONTRIBUTIONS RECEIVED (ADD D, E & F)	100 %	G) $ 3,712,208.
II. SUMMARY OF EXPENDITURES DURING THE YEAR:		
H) OPERATING CHARITABLE PROGRAM EXPENSE	79.555%	H) $ 3,057,543.
I) EDUCATION PROGRAM SERVICE EXPENSE	%	I) $
J) GRANTS TO OTHER CHARITABLE ORGANIZATIONS	%	J) $
K) TOTAL CHARITABLE PROGRAM SERVICE EXPENDITURE (ADD H, I & J)	79.555%	K) $ 3,057,543.
L) MANAGEMENT AND GENERAL EXPENSE	20.445%	L) $ 785,745.
M) FUNDRAISING EXPENSE	%	M) $
N) TOTAL EXPENDITURES THIS PERIOD (ADD K, L, & M)	100 %	N) $ 3,843,288.
III. SUMMARY OF PAID FUNDRAISER ACTIVITIES DURING THE YEAR: (Attach Attorney General Report of Individual Fundraising Campaign)		
O) TOTAL AMOUNT RAISED BY PAID PROFESSIONAL FUNDRAISER	100 %	O) $
P) TOTAL FUNDRAISER FEES AND EXPENSES	%	P) $
Q) NET RECEIVED BY THE CHARITY (O MINUS P=Q)	%	Q) $

IV. COMPENSATION TO THE (3) HIGHEST PAID PERSONS DURING THE YEAR:

NAME, TITLE	AMOUNT
R) ALBERT VAZQUEZ, PRESIDENT/C.E.O.	R) $ 115,000.
S) PRABODH VAIDYA - SR. VICE PRESIDENT/C.F.O.	S) $ 103,716.
T) ANTONIO CRISOSTOMO - PSCHIATRIST	T) $ 86,640.

V. CHARITABLE PROGRAM DESCRIPTION:

CHARITABLE PROGRAM (3 HIGHEST PAID BY $ EXPENDED) CODE CATEGORIES (List on back side of instructions)

DESCRIPTION	CODE
U) SERVICES FOR DEVELOPMENTALLY DISABLED ADULTS	U) # 121
V) SERVICES FOR ALCOHOL OR DRUG ABUSE	V) # 118
W) HOUSING FOR DISABLED	W) # 134

1/4/625 61 15 BC

IF THE ANSWER TO ANY OF THE FOLLOWING IS YES, ATTACH A DETAILED EXPLANATION:		YES	NO
1. WAS THE ORGANIZATION THE SUBJECT OF ANY COURT ACTION, FINE, PENALTY OR JUDGMENT?	1		X
2. HAS THE ORGANIZATION OR A CURRENT DIRECTOR, TRUSTEE, OFFICER OR EMPLOYEE THEREOF, EVER BEEN CONVICTED BY ANY COURT OF ANY MISDEMEANOR INVOLVING THE MISUSE OR MISAPPROPRIATION OF FUNDS OR ANY FELONY?	2.		X
3. DID THE ORGANIZATION MAKE A GRANT AWARD OR CONTRIBUTION TO ANY ORGANIZATION IN WHICH ANY OF ITS OFFICERS OR DIRECTORS OWNS AN INTEREST OR WAS A PARTY TO ANY TRANSACTION IN WHICH ANY OF ITS DIRECTORS, TRUSTEES, OR OFFICERS HAS A MATERIAL FINANCIAL INTEREST OR DID ANY OFFICER OR DIRECTOR RECEIVE ANYTHING OF VALUE NOT REPORTED AS COMPENSATION?	3		X
4. HAS THE ORGANIZATION INVESTED IN ANY CORPORATE STOCK IN WHICH ANY OFFICER, DIRECTOR OR TRUSTEE OWNS MORE THAN 10% OF THE OUTSTANDING SHARES?	4.		X
5. IS ANY PROPERTY OF THE ORGANIZATION HELD IN THE NAME OF OR COMINGLED WITH THE PROPERTY OF ANY OTHER PERSON OR ORGANIZATION?	5.		X
6. DID THE ORGANIZATION ALLOCATE THE COST OF ANY MAILING, ADVERTISEMENT OR LITERATURE COSTS BETWEEN PROGRAM SERVICE AND FUNDRAISING EXPENSES?	6.		X
7. DID THE ORGANIZATION LEND FROM RESTRICTED FUNDS TO ITS UNRESTRICTED FUNDS FOR PURPOSES OTHER THAN THEIR RESTRICTED PURPOSES?	7.		X
8. HAS THE ORGANIZATION EVER BEEN REFUSED REGISTRATION OR HAD ITS REGISTRATION SUSPENDED OR REVOKED?	8		X
9. DID THE ORGANIZATION USE THE SERVICES OF A PROFESSIONAL FUNDRAISER?	9.		X
10. DO YOU HAVE ANY KNOWLEDGE OF ANY THEFT, DEFALCATION, MISAPPROPRIATION, COMMINGLING OR MISUSE OF ORGANIZATIONAL FUNDS?	10.		X

11. LIST THE NAME AND ADDRESS OF THE BANKS, AND THE ACCOUNT #, WHERE THE ORGANIZATION MAINTAINS ITS THREE LARGEST AMOUNTS:

METROPOLITAN FEDERAL BANK, 3522 WEST 26TH STREET, CHICAGO, IL 60608

ACCOUNT NUMBERS 5110002558, 5110002566, 5110002574, 5110002590

12. NAME AND TELEPHONE NUMBER OF CONTACT PERSON: MR. LUIS ORTIZ 773-579-0832

UNDER PENALTY OF PERJURY, I (WE) THE UNDERSIGNED DECLARE AND CERTIFY THAT I (WE) HAVE EXAMINED THIS SUPPLEMENT AND THE ACCOMPANYING REPORT, INCLUDING ALL THE SCHEDULES AND STATEMENTS AND THE FACTS THEREIN STATED ARE TRUE AND COMPLETE AND FILED WITH THE ILLINOIS ATTORNEY GENERAL FOR THE PURPOSE OF HAVING THE PEOPLE OF THE STATE OF ILLINOIS RELY THEREUPON. I HEREBY FURTHER AUTHORIZE AND AGREE TO SUBMIT MYSELF AND THE REGISTRANT HEREBY TO THE JURISDICTION OF THE STATE OF ILLINOIS.

Albert Vasquez — 12/03/98
PRESIDENT or TRUSTEE (PRINT NAME) SIGNATURE DATE

SUBSCRIBED AND SWORN TO BEFORE ME THIS 3rd DAY OF DEC. 19 98

Beatrice A. Colón 12/9/98
TREASURER or TRUSTEE (PRINT NAME) SIGNATURE DATE

"OFFICIAL SEAL"
Luis O. Ortiz
Notary Public, State of Illinois
My Commission Exp. 03/25/2002

(NOTARY PUBLIC)

(NOTARIZATION REQUIRED UNDER TRUST ACT ONLY)

JOHN K HUFFMAN John K Hoffman 11/3/98
SIGNATURE OF PREPARER (PRINT NAME) SIGNATURE DATE

Appendix E
AGENCY RESPONSES

PILSEN-LITTLE VILLAGE COMMUNITY MENTAL HEALTH CENTER, INC.
2319 South Damen Avenue, Chicago, Illinois 60608
Email: plvcmhc@uss.net Online: http:// plvcmhc.home.ml.org

AGENCY LOCATIONS:

ADMINISTRATIVE OFFICE
Administration Office 2nd Fl.
Youth Leadership Program 1st Fl.
2319 S. Damen Ave.
Chicago, Illinois 60608
773/579-0832
Fax: 773/579-0762

MENTAL HEALTH DIVISION
Pilsen Outpatient Mental Health Program, EPSILAN DUI Treatment
1858 W. Cermak Rd.
Chicago, Illinois 60608
312/226-1120
Fax: 312/226-0135

(Pilsen Inn)Crisis Stabilization & Respite Care Unit/ Art Therapy Prog.
2635 W. 23rd St.
Chicago, Illinois 60608
773/927-1228
Fax: 773/927-0237

Community Intergrated Living Arrangements- CILA-CST
4115 W. 26th Street
Chicago, Illinois 60623
773/762-5300
Fax: 773/762-7362

CILA Residential
1759 W. 21st. Place
Chicago, Illinois 60608
312/243-3250
Fax: 312/243-8142

Vocational Rehab Center/ Consumers United Volunteer Prog.
2015 W. Cermak Rd.
Chicago, Illinois 60608
773/890-0645
Fax: 773/579-0832

SUBSTANCE ABUSE DIVISION
Drug Free Program/ Methadone Treatment, MISA Counseling/Casemanagement
3113 W. Cermak Rd.
Chicago, Illinois 60623
773/277-3413
Fax: 773/277-3517

PREVENTION & EDUCATION DIVISION
Family Systems Program,
2330 S. Millard Ave.
Chicago, Illinois 60623
773/762-8899
Fax: 773/762-6482

H.O.L.A.A. (Hands of Life Against AIDS)/SLIAG
2007 S. Blue Island Ave.
Chicago, Illinois 60608
312/226-5864
Fax: 312/226-7367

July 30, 1999

Mike Maziarz, Audit Manager
Office of the Auditor General
Iles Park Plaza
740 East Ash
Springfield, Illinois 62703-3154

Dear Mr. Maziarz:

Attached please find our responses to your findings on the management audit conducted by the Office of the Auditor General of the Pilsen-Little Village Community Mental Health Center, Inc. (P-LVCMHC).

The P-LVCMHC accepts the recommendations and has instituted management protocols that will prevent future management problems.

The agency has made personnel changes in our Fiscal Department.

We were unaware of OMB fiscal protocols and unfortunately put our faith and professional reputation on our fiscal department.

The changes previously instituted will assist the agency in meeting all State and federal rules and regulations.

We have redesigned the fiscal department and hope that these new changes will bring the agency into full compliance.

The P-LVCMHC has been in operation for well over 30 years. Through this period of time, we have developed an organization that promotes services required by the community and the State of Illinois. We have been recognized as leaders and pioneers in the fields of Mental Health, Substance Abuse and Vocational Rehabilitation, providing services to thousands of families.

Mike Maziarz
Audit Manager
Page 2

The agency has been recognized by CARF and has been commended for the quality of care and services provided to our participants. As a result, we have been able to secure our future growth by implementing strategic plans vital to meeting the growing needs of the community.

Although cited during your audit for failure to meet certain State and federal regulations, we believe that our service to the State and more importantly the community, provides us with a mandate to continue providing professional services.

We hope that our response to your report meets with your expectations.

If you have any questions or concerns, please feel free to contact our office.

Sincerely,

Albert Vazquez

Albert Vazquez
President/CEO

cc: Omar Lopez, Chaiperson
P-LVCMHC Board of Directors
Files

PILSEN-LITTLE VILLAGE COMMUNITY MENTAL HEALTH CENTER, INC.

RESPONSE TO RECOMMENDATIONS MADE BY THE

STATE OF ILLINOIS OFFICE OF THE AUDITOR GENERAL

PROPERTY TAXES	
RECOMMENDATION NUMBER 1	Pilsen management should continue to seek refunds of any monies inappropriately paid for and charged to State-funded programs and repay the State any monies due.
PILSEN RESPONSE	***Pilsen management had previously contacted the proper authorities to seek refunds for payment of taxes. Once these payments are returned, we will repay the State any monies due.***

COST ALLOCATION PLAN FOR INDIRECT COSTS	
RECOMMENDATION NUMBER 2	Pilsen management should develop and implement a consistent cost allocation plan that does not shift a disproportionate amount of their indirect costs to State-funded programs.
PILSEN RESPONSE	***Pilsen management has started to develop and implement a plan that will properly adhere to appropriate cost allocations and which will properly appropriate State funds in conjunction with current indirect cost plans. We will work with a CPA consultant to assist us with this mandate.***

BONUSES	
RECOMMENDATION NUMBER 3	Pilsen management should properly report bonuses as employee income on W-2 statements and should only charge pay increases related to employee performance to State programs. Furthermore, the Board of Directors should formally review and approve all bonuses granted to employees.
PILSEN RESPONSE	***Under new fiscal management, the agency has taken steps to ensure that any future bonuses will be properly reported as employee income on W-2 statements; and that said bonuses will be related to employee performance only, as stipulated in a written evaluation form. In addition, all future increases will be formally reviewed, discussed and ratified by the Board of Directors, prior to the issuance of any increases. Again, for the record, Pilsen management was fully unaware that previous bonuses were not reported on the employee W-2 statements.***

POLITICAL CONTRIBUTIONS	
RECOMMENDATION NUMBER 4	Pilsen management should not use Pilsen funds to make political contributions.
PILSEN RESPONSE	***Pilsen management was not aware of this policy, and will go on record to state that: Most of these contributions are for community based functions that have more to do with the state of affairs and networking, a vital component of our participation in the community we serve.*** ***We accept the recommendation and will seek donations and/or utilize other sources for future community events.***

PAYROLL IRREGULARITIES	
RECOMMENDATION NUMBER 5	Pilsen management should: • Document and consistently allocate salaries which are multi-program to both State and non-State funded programs, • Establish a control to ensure that wages are withheld when unauthorized absences occur so that unallowable costs are not charged to State-funded programs • Seek to recover double payment made to psychiatrist and request guidance from the State in how to handle the recovered funds, • Assure that contractual wages are adequately reported and documented, and • Require that employees adequately document time away on agency business.
PILSEN RESPONSE	***Pilsen management has:*** • ***Tried to comply with appropriate fiscal management protocols throughout its history.*** • ***Made changes in personnel due to previous difficulties uncovered by our administrative team and has since taken a pro-active approach in bringing the fiscal department in line with current State guidelines,*** • ***Instituted guidelines and administrative protocols to ensure that wages are withheld when unauthorized absences occur.*** • ***Been working with the University of Illinois to recoup funds erroneously paid to them and will assure that all wages are reported and documented.*** • ***Ensure that all employees document appropriately time away while on agency business.***

QUESTIIONABLE CELLULAR PHONE USAGE	
RECOMMENDATION NUMBER 6	Pilsen management should strengthen the review process currently in place for cellular phone accounts to ensure that personal accounts are not paid with agency funds and then allocated to State-funded programs. Additionally, management should recover reimbursement for any personal use of cellular phones.
PILSEN RESPONSE	***Pilsen management was unaware of the situation involving the cellular phone. This was an infraction of our policies. The agency has taken steps to ensure that this will never happen again. We have cancelled non-essential use of this cellular phone and have sent a certified letter to the party in question. We must note that this phone was not registered to the agency, and instead registered to a personal account. Once we have resolved this situation we will we will return the funds to the State.***

QUESTIONABLE REIMBURSEMENT OF EXPENSES	
RECOMMENDATION NUMBER 7	Pilsen management should ensure that adequate documentation exists for business expenses reimbursed to employees
PILSEN RESPONSE	***Pilsen management has taken steps to ensure that all business expenses have proper documentation before reimbursing employees. Team meetings have been convened with all staff to discuss this procedure to improve and ensure compliance.***

CASH MANAGEMENT PRACTICES	
RECOMMENDATION NUMBER 8	Pilsen management should: • Require complete documentation of expenditures (such as clients attending events and the business purpose of the expenditure and only issue reimbursements to employees for out-of-pocket expenses that employees have already incurred and ensure receipts match the amount of the reimbursement check, • Follow state rules and sound business practice and not make checks payable to employees for the purpose of cashing and paying vendors directly, and • Comply with the Financial Procedures Manual and not loan money to employees for an extended period of time.
PILSEN RESPONSE	***Pilsen management will:*** • ***take the necessary steps to follow the recommendations set forth, and*** • ***comply with current agency Financial Procedures Manual guidelines.***

DONATIONS	
RECOMMENDATION NUMBER 9	Pilsen management should take the necessary steps to ensure that donations are not paid with State Funds.
PILSEN RESPONSE	***Pilsen management accepts this recommendation and will try to secure other unrestricted resources for any future donations.***

MEMBERSHIPS	
RECOMMENDATION NUMBER 10	Pilsen management should comply with State requirements regarding the charging of individual and group memberships to State programs.
PILSEN RESPONSE	***Pilsen Management will comply fully with this recommendation, and will work with IADDA to renegotiate the membership dues. IADDA plays an important role as an advocate for substance abuse services.***

TRAVEL	
RECOMMENDATION NUMBER 11	Pilsen should implement a plan to better document travel expenses. Further, Pilsen administrators and staff should take the necessary steps to fully understand and follow the State and federal restrictions placed on travel reimbursement expenditures.
PILSEN RESPONSE	***The agency accepts this recommendation, and will state for the record that we were not familiar with State protocols for travel. We will ensure that any future activities of this sort be discussed with State officials. The agency has secured policies that will ensure appropriate documentation.***

FINES AND PENALTIES	
RECOMMENDATION NUMBER 12	Pilsen management should take necessary steps to fully understand and follow State and federal restrictions placed on utilizing public funds for fines and penalties.
PILSEN RESPONSE	***Pilsen management accepts these recommendations. It must be reported that although we try to pay the bills on time, we have had difficulty receiving State and Medicaid reimbursements on time, thus making it difficult to meet our financial obligations, thus penalized late fees and or charges.***

INVENTORY	
RECOMMENDATION NUMBER 13	Pilsen management should schedule and complete a full inventory of its property and equipment and maintain sufficient and adequate property records.
PILSEN RESPONSE	***Pilsen management accepts this recommendation and has begun the process of completing a full inventory of all its property and equipment on an annualized basis.***

ADDITIONAL QUESTIONED COSTS	
RECOMMENDATION NUMBER 14	Pilsen management should only allocate direct costs to State funded programs that actually receive benefit from the expenditure. Additionally, management should ensure that non-client entertainment is not allocated to State-funded programs.
PILSEN RESPONSE	***Pilsen management accepts this recommendation and will work with a CPA consultant to properly allocate funds.***

RELATED PARTY TRANSACTIONS	
RECOMMENDATION NUMBER 15	Pilsen management and the Board of Directors should access the nature of transactions with the Alliance for the Development of Latino Communities and determine whether such transactions should be disclosed as related party transactions in its audit report, pursuant to professional auditing standards.
PILSEN RESPONSE	***Pilsen management accepts this recommendation, and will ensure that the agency's Board of Directors assesses any or all-future transactions involving the Alliance for the Development of Latino Communities.***

BOARD OF DIRECTORS ACTIONS	
RECOMMENDATION NUMBER 16	Given the Board of Directors responsibilities as delineated in Corporate by-laws, the board should conduct an examination of its level of control over Pilsen operations. Furthermore, the board should exercise and ensure that appropriate action is taken to address deficiencies noted in this audit.
PILSEN RESPONSE	***The agency's Board of Directors fully accepts these recommendations, and will work diligently with agency administrative staff to comply with all State mandates and regulations.***

FOLLOW-UP	
RECOMMENDATION NUMBER 17	The Department of Human Services, Public Aid and Children and Family Services should undertake a thorough evaluation of Pilsen financial practices to determine if funds received from the State are adequately protected and have been appropriately expended. Further, the Department should follow up on the questionable expenditures reported during this audit and seek recovery of inappropriately expended State funds.
DEPARTMENT RESPONSE	

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SPFLD.

1999 AUG -6 A 11:13

George H. Ryan, Governor

Illinois Department of Human Services

Howard A. Peters III, Secretary

509 West Capitol • Springfield, Illinois 62704

August 6, 1999

Mr. Mike Maziarz
Audit Manager
Office of the Auditor General
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703-3154

Dear Mr. Maziarz:

Thank you for the opportunity to respond to your audit of Pilsen-Little Village Community Mental Health Center. As you know, DHS has conducted reviews of Pilsen's operations, including reviews of audited financial statements, a detailed on-site review of internal controls in Fiscal Year 1996, and on-site reviews of case files. Our Office of Contract Administration had planned on completing a detailed on-site review in Fiscal Year 1999, but delayed their review until Fiscal Year 2000 because of this audit.

DHS also requires providers such as Pilsen to meet Federal Circular A-133 requirements by having annual audits conducted by independent, Certified Public Accountants. These audits include reviewing whether Pilsen's expenditures have complied with applicable legal requirements, contracts and grants. DHS performed desk reviews and analysis of those audit reports, also identifying lapsed funds and the excess allocation of administrative costs to DHS programs.

Our response to Recommendation Number 17 is:

Recommendation Number 17
The Departments of Human Services, Public Aid and Children and Family Services should undertake a thorough evaluation of Pilsen's financial practices to determine if funds received from the State are adequately protected and have been appropriately expended. Further, the Departments should follow up on the questionable expenditures reported during this audit and seek recovery of any inappropriately expended State Funds.

DHS' Response
DHS will follow up on questionable expenditures identified in the audit and will take appropriate action to resolve these expenditures. DHS requires Pilsen to submit annual independent audits with supplemental expense and revenue program information. Our review of this information also noted an excess of administrative costs allocated to State-funded programs. The reports also disclosed the property tax issue. Both of these issues were identified for resolution by DHS' Office of Contract Administration (OCA). On-site reviews are conducted, with the last one done in Fiscal Year 1996. OCA will visit Pilsen again in Fiscal Year 2000. This visit was originally planned for Fiscal Year 1999, however, it was delayed until the Auditor General's audit could be completed.

If you have any questions please contact me.

Thank you.

Sincerely,

James R. Donkin

James R. Donkin, CIA
Chief Internal Auditor

JRD:lb

George H. Ryan, Governor
Ann Patla, Director

Illinois Department of Public Aid

201 South Grand Avenue East
Springfield, Illinois 62763-0001

Telephone: (217) 782-1200
TTY: (800) 526-5812

August 5, 1999

William G. Holland, Auditor General
Office of the Auditor General
740 East Ash
Springfield, Illinois 62703-3154

Attention: Mike Maziarz

Dear Auditor General Holland:

Thank you for the opportunity to review the Management Audit of Pilsen Little Village. Our response to the recommendation that included our agency is set forth below:

Recommendation #17
The Departmens of Human Serivces, Public Aid and Children and Family Services should undertake a thorough evaluation of Pilsen financial practices to determine if funds received from the State are adequately protected and have been appropriately expended. Further, the Departments should follow up on the questionable expenditures reported during this audit and seek recovery of any inappropriately expended State funds.

DPA Response
Due to Pilsen Little Village's relatively small Medicaid set rate fee for service payments, $38,958, it was not considered high risk and consequently not scheduled for audit. Normally, the estimated audit costs, approximating $8,200, would be weighed against the $38,958 cost being controlled. However, the Department will accept the recommendations of the auditors. The Bureau of Medical Quality Assurance will conduct an audit of Pilsen Little Village to determine if medical and other documentation meets DPA's requirements for payment.

If we may be of any further assistance, please contact our Chief Internal Auditor, John L. Cain, at 557-4710.

Sincerely,

Ann Patla

Ann Patla
Director

STATE OF ILLINOIS
GEORGE H. RYAN, GOVERNOR
JESS MCDONALD, DIRECTOR

DEPARTMENT OF CHILDREN AND FAMILY SERVICES

406 EAST MONROE STREET
SPRINGFIELD, ILLINOIS 62701-1498

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August 6, 1999

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1999 AUG -9 A 8:40

Honorable William G. Holland
Auditor General
Iles Park Plaza, 740 East Ash
Springfield, IL 62703

Attention: Mr. Mike Maziarz

Subject: Pilsen/Little Village Community Mental Health Center Management Audit

Dear Mr. Holland:

We have reviewed the draft Pilsen/Little Village Community Mental Health Center Management Audit and were impressed, and congratulate your staff, on the thorough and comprehensive review you conducted of the Center's operations. Certainly, many of your findings and observations need to be considered in future decisions to engage Pilsen/ Little Village as a Purchase of Service (POS) contractual provider of counseling services to our clients.

Our on-going processes of evaluating service provider effectiveness, and forecasting client service needs geographically, have already resulted in decreases in our reliance on Pilsen/Little Village as a contractual service provider. For example, our current Purchase of Service contract with Pilsen/Little Village is at the $45,000 level compared to the $94,942 in FY99, and the $149,305 in FY98, contracts cited in your report.

We intend to examine your findings and re-review FY97 and FY98 Pilsen/Little Village cost reports and A-133 audit reports to determine if there are justifications for cost recoveries beyond the $6,843 disallowance and recovery we previously effected as noted in your report.

Sincerely,

Jess McDonald

Jess McDonald

cc: Jon Gaciala