LEGISLATIVE AUDIT COMMISSION

Management Audit
Pilsen-Little Village Community
Mental Health Center, Inc.

February 2008

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Springfield, Illinois 62706
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RECOMMENDATIONS - 19

Background

Pilsen-Little Village Community Mental Health Center provides social and mental health services through its nine facilities to the primarily Hispanic community of Pilsen-Little Village and to the Chicago metropolitan area at large. Pilsen received $14 million, or 76% of its total funding from the State during fiscal years 2004-2006, the majority from the Department of Human Services ($13.6 million). Pilsen also received State funding from the Department of Public Health ($85,000), the Illinois State Board of Education ($250,000), and the Department of Healthcare and Family Services ($42,435). The organization is overseen by a 19-member Board of Directors and managed by an Executive Director.

Report Conclusions

House Resolution 1146, adopted on May 4, 2006, directed the Auditor General to conduct an audit of Pilsen-Little Village Community Mental Health Center to determine whether funds received by Pilsen have been spent according to applicable State laws, regulation, contracts and grants. The review of Pilsen's activities and expenditures produced a report with 19 recommendations and identified a number of findings:

- During fiscal years 2005 and 2006, Pilsen paid over $30,000 in property taxes. Pilsen operates as a not-for-profit corporation and qualifies for an exemption from property taxes. After the completion of our fieldwork, Pilsen received a refund in November 2007 for $16,661 of the property taxes paid.
- Related party transactions involved Pilsen and Pilsen's newest Board member, including the purchase of property for $6.4 million.
- Pilsen programs, including State-funded programs, were over-allocated $21,361 in healthcare and dental expenses for Latino Youth Alternative High School employees.
- In the review of personnel files, 32% of sampled files lacked documentation that the individual met the established job qualifications for their position and 48% lacked documentation on performance appraisals.
- Although required by its policies, Pilsen did not utilize competitive bidding for any of the six construction contracts, totaling $170,100, in our expenditure sample.

- Pilsen did not maintain an accurate listing of its vehicles and had difficulty providing a list of vehicles when requested. An examination of Pilsen's property and equipment listing showed only five of its nine vehicles were included as assets.
- Salary expense for unallocated activities was inappropriately charged to Pilsen's programs.
- Pilsen incurred a total of $24,763 in cell phone charges during fiscal years 2005 and 2006, which included excessive roaming charges ($3,067 in roaming charges for two sampled expenditures) for the Executive Director's cell phone while the Executive Director was out of the country.
- Pilsen does not take physical inventory of its assets on a regular basis.
- In the sample review of the agency's expenditures, 15 of 42 credit card purchases of $50 or more did not have the required receipt.

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

RECOMMENDATIONS

1. The Department of Public Health should recover unspent funds for both the Breast and Cervical Cancer and the Prostate Cancer Awareness grants. The Department should also ensure that all required reports are received and evaluated to ensure that grant moneys are spent properly and proposed outcomes are achieved.

Findings: For fiscal years 2004 – 2006, Pilsen received $85,000 in grant funding for six grants from the Illinois Department of Public Health.

Breast and Cervical Cancer Grant – FY05

Pilsen received a $35,000 grant in fiscal year 2005 from Public Health to provide breast and cervical cancer education, screenings, and referrals to the Hispanic population in Cicero, Berwyn, and the Little Village communities. The term of the grant was March 1, 2005 through June 30, 2005.

The grant agreement required reports to be submitted. The reports Pilsen submitted, however, did not include adequate expenditure information and also showed that program targets were not met. Of the 600 females targeted, approximately 130 individuals received information and 46 participants were screened on-site.

In addition, the final progress report submitted by Pilsen was dated November 22, 2005, which was 145 days after the end of the grant period. The final report included an expenditure report that showed that only $18,202 of the $35,000 in grant funds was spent. The remaining $16,798 of unspent funds was shown on the expenditure report as net income and was not returned to the State.

BUDGETED VS. ACTUAL EXPENDITURES FY05 Breast and Cervical Cancer Grant			
Expense	**Actual Amount**	**Budgeted Amount**	**Difference**
Patient Care	$6,849	$28,756	- $21,907
Supplies	3,893	2,000	+ 1,893
Contractual Services	3,451	1,800	+ 1,651
Personal Services	2,904	1,344	+ 1,560
Equipment	850	700	+ 150
Travel	255	400	- 145
Total	**$18,202**	**$35,000**	**- $16,798**
Source: Grant Agreement and Final Expenditure Report.			

Public Health officials stated that the unspent monies were supposed to be used for additional screenings but could not provide documentation that this was agreed to by both parties. A Pilsen official stated that no one asked for the money back so they did not return the monies to the State. The grant agreement required the unspent monies to be returned within 30 days, while the Illinois Grant Funds Recovery Act requires the unspent monies to be returned within 45 days.

Prostate Cancer Awareness Grant – FY05

In FY05, Public Health awarded Pilsen a Prostate Cancer Awareness Grant in the amount of $20,000. The term of the grant was February 1, 2005 through June 30, 2005 and required Pilsen to conduct a prostate cancer awareness campaign in Metropolitan Chicago. A final report detailing activities and expenses was not submitted so it is unknown how the $20,000 was spent. In addition, monthly progress reports showed that performance targets were not met.

Prostate Cancer Awareness Grant – FY06

In FY06, Public Health awarded Pilsen another Prostate Cancer Awareness Grant in the amount of $10,000. The term of the grant was March 15, 2006 through June 30, 2006 and required Pilsen to conduct a prostate cancer awareness campaign in Metropolitan Chicago. An expenditure report showed that Pilsen spent $9,137 of the $10,000 provided. As noted previously, the Grant Funds Recovery Act requires that any unspent funds be returned within 45 days of the end of the grant period.

HIV/AIDS Education and Awareness Grant – FY06

Pilsen received a $10,000 grant from Public Health FY06 to expand HIV/AIDS education through the Hands of Life Against Aids (HOLAA) Program to Latino men and women. The term of the grant agreement was May 1, 2006 through June 30, 2006 and required Pilsen to provide HIV/AIDS education and awareness to high schools and community based organizations. The final report was submitted 60 days late and did not provide information on how the money was spent other than providing a copy of the budget from the original agreement.

Capacity Building Grant for HIV Prevention Programs – FY04

Public Health awarded Pilsen a Capacity Building Grant in fiscal year 2004 for HIV Prevention Programs in the amount of $5,000. It was primarily for the development of an HIV/AIDS Awareness website. The term of the grant was March 3, 2004 through June 30, 2004. Specifically, the website was to include frequently asked questions concerning what is HIV/AIDS, signs, symptoms, treatment alternatives, and prevention information. It was to serve as an online resource directory with links and information to organizations providing counseling, testing, case management, and other treatment services in the Chicago Metropolitan area as well as major service providers in Illinois.

The grant agreement required Pilsen to submit a final report by July 30, 2004 detailing website success including accomplishments and barriers. The final report, dated July 30, 2004, noted that Pilsen was only able to complete the program objectives and descriptions on the website and was anticipating the final design to be completed by the end of August 2004. Even though Pilsen received the entire grant amount of $5,000, the goals for the website were not met. As of July 2007, the website consisted of a brief description of the Hands of Life Against AIDS Program and the services it provides. It did <u>not</u> include frequently asked questions or links and information to other organizations.

Minority Health Month & National HIV Counseling and Testing Day Grant – FY04

Pilsen received a $5,000 grant in FY04 from Public Health to organize and facilitate special events in accordance with Minority Health Month and National HIV Counseling and Testing Day. The term of the grant was March 3, 2004 through June 30, 2004. All reports were submitted and outcomes were achieved.

<u>IDPH Response</u>: Public Health has contacted Pilsen-Little Village Mental Health Center by certified letter and requested the unexpended funds from the Breast and Cervical Cancer grant #50180096 in the amount of $16,798 and unexpended funds from the Prostate Cancer Awareness grant #63284040 in the amount of $863 be returned to the Department. The Department has instituted additional reporting procedures that include a more thorough process for the review of monthly and final program and fiscal reports. Lastly, the Department has developed a uniform program progress report form to be utilized by all grantees. This report will augment the required narrative progress reports.

<u>IDPH Updated Response</u>: The Department sent two certified letters (one for each grant) to this particular grantee on December 20, 2007 seeking repayment of the questioned amounts. The grantee responded on January 8, 2008 with a repayment schedule for both of these grants. To date, they have not satisfied the repayment schedule and we are in contact with the grantee to ensure that the payments are received.

2. The Illinois State Board of Education should ensure that grant funds are spent according to the grant agreement by obtaining adequate documentation that supports expenditure amounts.

<u>Findings</u>: In September 2005, an intergovernmental agreement was signed to provide $17.3 million in funding from the Illinois Department of Human Services from TANF funds into the Illinois State Board of Education (ISBE) Special Purpose Trust Fund. From this funding, Pilsen received a $250,000 grant to be used in four of its children's programs to offset several general operating expenses.

The exhibit below breaks down the funding from ISBE. According to the grant agreement, Pilsen budgeted to use $151,308 in their Children's Psychiatric Outpatient Program to increase psychiatrist hours and pay proportionately for staff salaries and other operational expenses. The funding was to allow for an increase in clients served from 64 to 85. The Alternative High School was budgeted to receive $60,000 to cover rent and utility expenses. Ounce of Prevention/Teen Moms was budgeted to receive $21,892 to pay proportionately for administrative costs, salaries, and supplies with a goal to accommodate 56 clients after school. The Childhood After School Development Program was budgeted to receive $16,800 to pay for staff salaries. At the time of the grant, this program had an enrollment of 26, but could accommodate 40.

BREAKDOWN OF ISBE FUNDING TO PILSEN
Fiscal Year 2006

Pilsen Program	Designated Use	Dollar Amount	Percent of Total
Children's Psychiatric Outpatient Program	Increase psychiatrist hours and pay proportionately for staff salaries and other operational expenses.	$151,308	60.5%
Alternative High School	Rent and utility expenses.	$60,000	24.0%
Ounce of Prevention/ Teen Moms	Administrative costs, salaries, and supplies.	$21,892	8.8%
Childhood After School Development Program	Staff salaries.	$16,800	6.7%
	Total:	**$250,000**	**100.0%**

Source: ISBE grant agreement with Pilsen.

The term of this grant between Pilsen and ISBE was from July 1, 2005 to June 30, 2006. The initial proposal was submitted by Pilsen on March 21, 2006, while the grant agreement was signed by Pilsen on April 5, 2006 and by ISBE on April 12, 2006. The grant agreement's payment schedule specified payments of $200,000 in May 2006 and $50,000 in June 2006. However, the entire amount of $250,000 was paid to Pilsen on April 21, 2006.

Correspondence from ISBE to Pilsen dated September 6, 2006 noted that Pilsen's final expenditure report had not been received. The report was due July 31, 2006 and, according to the correspondence, ISBE had made several attempts to secure the submission of the report. ISBE received an expenditure report on September 12, 2006 that exceeded the budgeted total by $7,828. ISBE notified Pilsen that the expenditure report could not be accepted. A revised expenditure report was received on September 22, 2006. This revised expenditure report almost exactly matched the original budgeted amounts in the grant agreement except for a $656 difference that was allocated from food services to information services.

No supporting documentation was submitted with either expenditure report and ISBE did not follow-up on the accuracy of the expenditure report. The proposed capacity figures mentioned in the grant agreement also were not verified to see if those goals were achieved. ISBE officials stated that no questions or additional information had been requested and no site visits had been conducted of Pilsen.

ISBE Response: The Illinois State Board of Education (ISBE) has taken steps to strengthen controls over member initiative grants in fiscal year 2007, since this type of grant is not subject to the standard level of grant monitoring performed on established programs.

The grant agreement for member initiative grants was modified to require the grantee to acquire the services of a Certified Public Accountant to perform certain agreed upon procedures, including procedures to ensure that the amounts reported to ISBE agree to the grantee's accounting records and to test expenditure transactions to ensure they are for the intended purpose of the grant, in accordance with the requirements of the grant agreement, and supported by the grant recipient's underlying records.

ISBE Updated Response: ISBE continues to take actions to further strengthen processes and procedures surrounding member initiatives. In addition to the implementation of the agreed upon procedures requirement for FY 2007 member initiative grants, the documentation requirements (application) were expanded, recipients are required to attend training, recipients are subject to monitoring, and recipients must provide a program performance report.

3. **Pilsen should ensure that expenses are appropriately classified to unallocated accounts when the costs are unallowable or are not associated with services Pilsen provides to State programs. Pilsen should also ensure that salary expenses for time spent performing other functions classified as unallocated activities are not charged to Pilsen's programs.**

Findings: Some costs are either an unallowable cost or are not directly associated with the services Pilsen provides. These expenses are charged as Unallocated General and Administrative costs and are not allocated to the various programs. An expense analysis provided by Pilsen shows that during FY05, Pilsen charged $19,746 as unallocated expenses and $158,665 in FY06.

During the review of expenditures at Pilsen, expenditures were charged to programs that instead should have been charged as unallocated expenses including property taxes, travel, finance charges, and gratuities.

Examples of activities undertaken at Pilsen that were not allocated to any specific program but incurred salary expenses that were inappropriately allocated to State-funded programs included the following:

- Pilsen collected $133,405 in management fees during FY06. The management fees were classified as unallocated revenues instead of being classified as revenues for the services provided on behalf of the Latino Youth Alternative High School. It is unclear how much personnel costs were incurred to earn these fees.

- Pilsen performed a number of activities related to the Bi-National Health Week event. Pilsen made the determination that these activities should be classified as unallocated expenses and were charged as General and Administrative expenses and were allocated across all programs including State-funded programs.

- In addition to the Bi-National Health Week event, Pilsen also worked collaboratively on a number of events with the Mexican Consulate in Chicago. Again, Pilsen made the determination that these activities should be classified as unallocated expenses.

Response: Pilsen will review the current percentage of unallocated salary expenses and determine, based on an informed internal review, a subsequent adjustment to the current 1.2 percent of unallocated salary amounts. This will include any necessary adjustments for salary expense amounts for staff time spent on mission-related agency services not directly associated with state-funded programs. Further, Pilsen will conduct semi-annual reviews of the agency's Cost Allocation Plan to validate all allocated amounts are consistent with changing revenue streams, shifts or changes in employees' duties and responsibilities, and within the guidelines of state-funded programs.

Of important note, the strategic managing agent services provided to Latino Youth, Inc., specifically to the Latino Youth Alternative High School, have allowed a vitally important education alternative for area youth to remain within the local community. LYAHS, now a cornerstone of our educational programming, strengthens and improves our comprehensive program services array.

With regard to the Bi- national Health Week Policy Forum coordinated by Pilsen, the event represents an extraordinary, but atypical undertaking. The event supported organizational efforts to improve culturally competent services provision to Pilsen program participants. Establishing collaborative partnerships with mental health professionals currently serving Latino-origin populations, addresses the need for culturally appropriate services. The cultural appropriateness of mental health services may be the most important factor in the accessibility of services by persons of color. The workshops and plenary sessions offered during the Policy Forum provided a rich source of information and facilitated discussion involving state-of-the art, cutting edge research across multiple service dimensions for the purpose of reducing barriers to effective treatment. These efforts ultimately sought to facilitate access to holistic and comprehensive, culturally appropriate services delivery for our program participants.

Updated Response: Fully Implemented. Pilsen has revised its Cost Allocation Plan. The Quality Assurance Department and Fiscal Department have reviewed the personnel salary allocations to ensure that allocated amounts are consistent with changing revenue streams, shifts or changes in employees' duties and responsibilities, and within the guidelines of state-funded programs.

4. Pilsen should ensure that healthcare and dental expenses are charged directly to the program that incurred the expense to prevent other programs from being charged a disproportionate share of expenses.

Findings: Healthcare and dental expenses for the Latino Youth Alternative High School employees were allocated across all programs, including State-funded programs, instead of being charged directly to the High School. During FY06, Pilsen assumed control of the Latino Youth Alternative High School. The High School is a charter school that offers youth facing expulsion from other learning institutions a second chance to obtain a high school diploma. The High School is funded by the Youth Connection Charter Schools, the Chicago Public Schools, and the Alternative Schools Network.

Only $8,445 in healthcare and dental expenses was allocated to the High School although $29,807 was actually incurred. This resulted in $21,361 being over-allocated to other programs, including State-funded programs.

Updated Response: Fully Implemented. P-LVCMHC, Inc. does not include any Healthcare and Dental expenses for employees charged to a specific program from any administrative allocations. P-LVCMHC has reviewed the fringe benefit allocations to ensure allocation methods reflect fair and rational expense shares in accord with funding source guidelines and requirements.

5. Pilsen should ensure that personnel files document that all employees are qualified for their position and that employees receive performance appraisals.

Findings: In the review of personnel files, for 32% of employees in the sample, documentation in the file did not support that the individual met the established job qualifications for their position. Personnel files should be complete and accurate and demonstrate an individual meets the job requirements. In addition, 48% of the files lacked documentation on performance appraisals.

Job Qualifications

For eight of 25 employees sampled, documentation in the file did not support that the individual met the established job qualifications for their position. For example:

- The position of Program Coordinator for the Drug-Free Program requires a Bachelors Degree in Counseling, Psychology, or Social Work. However, the personnel file for this employee, a relative of the Executive Director, indicated a Bachelors Degree in Fruticulture.
- The position of Development Director requires a Ph.D. or Master's Degree in social services and a minimum of five years experience in the field. However, the file for the Development Director did not have a resume, job application, or any other document to indicate the qualifications of the individual.

Performance Appraisals

Pilsen's employee manual states that an employee's performance will normally be evaluated upon the completion of any probationary period, at the end of the first year of employment, and at the end of each fiscal year thereinafter. However, employees in the sample did not always receive an annual performance appraisal. For 12 of 25 employees sampled, the personnel file lacked documentation of performance appraisals.

- Most files contained a performance appraisal, but in many cases the appraisal was not within the last year. For example, one file's most recent appraisal was from July 2003.
- One file contained only three performance appraisals (dated 06-18-85, 10-04-00, and 09-21-04) for an employee that had been with the organization for over 20 years. Despite the lack of performance appraisals, this employee received steady 5% increases each of the previous five years.
- Four files contained no performance appraisals. For example, a relative of the Executive Director was hired July 5, 2005 and was promoted six days later with a salary increase of 33%. The personnel file for this employee lacked any performance appraisals.

Response: In making decisions to hire potential job candidates, Pilsen considers all relevant job related experience that job applicants possess prior to employment with the organization. The individual cited by the OAG audit report did not begin work at the organization as a counselor, but rather as a part-time, third-shift CILA program staff person. The individual possessed valuable job-related experience from employment with another not-for-profit in the same capacity. Moving through the ranks and gaining valuable experience, this individual, after a number of years with the agency, applied for a position within the Substance Abuse Division. The employee in question possesses a C.A.D.C. (Certified Alcohol and other Drugs Counselor) and has had this important certification for more than four years, since May 2003. The C.A.D.C. is a requirement for counselors providing substance abuse treatment services, after two-years of substance abuse treatment-related experience. ***(See Auditor Comment #1)***

Pilsen's Human Resources Department will incorporate the use of database calendar software to provide reminders to alert HR staff one-month prior to when performance appraisals are due. HR staff will then send e-mail reminders to respective supervisors, coordinators, and/or directors to inform them of upcoming submission requirement deadlines.

The Quality Assurance Director will perform semi-annual reviews of HR files to insure files include resumes, performance appraisals, supporting documentation and/or proof of credentials, background checks (if applicable), job descriptions etc. Any discrepancies found during HR reviews will be documented and presented to the HR Director for action.

With regard to the issue of the Pilsen employee "promoted" after six days of employment, this individual transferred to the Development Department upon management's determination of this employee's exceptional writing talents supported by a dual background in both psychology and education. The salary was adjusted accordingly as the new position carried greater responsibilities, a significantly increased workload, higher intellectual demands, as well as flexible and extended hours to meet tight grant and proposal deadlines targeting children's programming expansion efforts. Both supervisors for the employee in question unexpectedly terminated employment with the organization and did not complete the required performance appraisals. Of important note, no further salary adjustments were made during the period in question.

Auditor Comments: Pilsen's job description for the position of Program Coordinator for the Drug-Free Program requires a "Bachelor Degree in Counseling, Psychology, Social Work, **and** 3-5 years of Supervisory/Administrative experience." As stated in the audit, the personnel file did not contain documentation that the individual met the established job requirements. Personnel files should be complete and accurate and demonstrate an individual meets the job requirements.

Updated Response: Fully Implemented. Pilsen's Human Resources Department has developed an Excel-based database spreadsheet detailing performance appraisal submission deadlines for all agency staff. The HR Department staff provides timely e-mail reminders to respective supervisors, coordinators, and/or directors to inform them of upcoming submission requirements.

The Quality Assurance Director has performed a review of HR files to insure files include resumes, performance appraisals, supporting documentation and/or proof of credentials, background checks (if applicable), job descriptions etc. The discrepancies found during

HR reviews were documented and presented to the HR Director for action. Follow up was conducted to insure files were completed.

6. Pilsen should ensure a physical inventory is conducted on an annual basis as required by its Financial Procedures Manual. Pilsen should also be more consistent in tagging assets and should consider a lower dollar threshold for tagging assets, especially for items susceptible to theft. Lastly, Pilsen should develop procedures to ensure that employees turn in property upon leaving employment, as well as develop procedures on notification of when assets are moved from one location to another.

Findings: Pilsen does not take physical inventory of its assets on a regular basis. Some of these assets were purchased with State funds, which could lead to a loss of State property.

Pilsen's Financial Procedures Manual requires that a physical count of all fixed assets be taken at least annually. However, Pilsen's Business Manager stated that once the inventory has been coded, tagged, and entered into their computer system, no one goes out to the facilities to monitor or check on the assets. A physical inventory is not taken and inventory is difficult to keep track of because there is no system in place for reporting when assets are transferred from one location to another. The business manager added that there is no system in place to monitor where an employee's laptop computer goes after the employee has terminated employment with Pilsen.

Auditors judgmentally selected 40 items listed on Pilsen's fixed asset listing to physically examine and verify that the assets were at the reported locations. All of the items selected were purchased with State funds. During inventory testing, 8% (3 of 40) of the assets tested could not be located. The three items consisted of one laser fax and two computers.

Auditors also found inconsistencies in the tagging of assets. Pilsen's Financial Procedures Manual requires that items over $500 be immediately tagged and inventoried. Auditors selected an additional 25 asset items for reverse testing to determine if the assets had been tagged and accounted for properly. Of the 25 items tested, 44% (11 of 25) were not tagged.

While Pilsen's Financial Procedures Manual does not require items less than $500 to be tagged and inventoried, Pilsen is still responsible for maintaining internal control records for these items. This is especially important for items susceptible to theft such as computers and monitors. These types of items should be tagged and inventoried regardless of the purchase price.

Response: Pilsen will revise the Financial Procedures Manual section pertaining to inventory procedures. The new procedure incorporates a lower dollar threshold of $100. The revised Financial Procedures Manual will indicate:

"… Assets over $100 shall be tagged and inventoried within 30 calendar days of receipt."

Pilsen has implemented the use of new inventory software (Mobile Asset), which incorporates scanning/barcode technologies. The new Asset Tag System facilitates the rapid inventorying of organizational assets as well as subsequent accurate identification of assets, which may have shifted to different locations as a result of program or staff movements.

The Business Director will track asset movements through the "Maintenance Work Order" forms. Maintenance personnel have the charge of moving staff office equipment, files, and furniture when needed. The Business Director must approve all maintenance requests prior to personnel beginning any assigned task. The maintenance work order has a section where requesting staff persons must specify which items shall be moved and to which locations.

The HR Department will alert the business department of new employee hires and terminations for the purpose of updating asset lists. Further, Pilsen will track the inventory of all fixed assets over $100 dollars by conducting annual reviews of assets assigned to individual employees and locations and requiring sign-off from employees and their respective supervisors.

The Business Department will generate reports, which specify what assets were assigned to beginning and departing employees. During the exit interview process, asset reports can be reviewed and returns and reassignments can be accurately completed.

Updated Response: Fully Implemented. The Financial Procedures Manual was updated and approved by the Board of Directors. The new Asset Tag System is in use and assets over $100 are being inventoried. The Business Department tracks the movement of technology equipment and furniture through use of the "Maintenance Work Order" and the new "Technical Work Order" form. The HR Department has increased its communication with the Business Department to alert the latter regarding new employee hires and departing staff for the purpose of reviewing, returning, and reassigning inventoried assets. The annual reviews of assets will be conducted prior to the end of each fiscal year.

7. Pilsen should ensure that policies and procedures governing the use of its vehicle fleet are followed. Procedures should be updated to include defining allowable expenses and requiring submission of receipts for gas purchases. Pilsen should also maintain an accurate listing of its vehicles and ensure that all vehicles are included on its property and equipment listing.

<u>Findings</u>: Pilsen did not maintain an accurate listing of its vehicles and had difficulty providing a list of vehicles when requested. Pilsen's vehicle fleet consisted of nine vehicles during fiscal years 2004 – 2006, but a list of vehicles provided to the auditors in February 2007 contained only five vehicles, while a list provided to the auditors in May 2007 contained seven vehicles. The auditors identified an additional vehicle that was not on either list. A Pilsen official stated the vehicle was not on the list because it was donated. An examination of Pilsen's property and equipment listings showed only five of the nine vehicles were included as assets.

Pilsen provided a list of employees authorized to drive the vehicles during fiscal years 2004 – 2006. When examining documentation for fuel expenditures, two drivers were not on the authorized driver listing. Pilsen officials stated that those individuals were authorized drivers, but were mistakenly left off of the list. However, one of the two drivers in question was not an employee at Pilsen. Pilsen officials responded that the individual participated in the program and was assigned the task of driving program participants to related program activities.

Pilsen uses credit cards for fuel purchases and receives a detailed billing on a monthly basis. The bill lists individual charges for each vehicle including the date, time, driver, odometer reading, gallons, and amount of purchase. According to Pilsen officials, a credit card is assigned to each vehicle and given to the driver. We noted problems when examining documentation for fuel expenditures:

- Some receipts for gas purchases were provided, but many were missing.
- Odometer readings were often not recorded properly, calling into question the legitimacy of fuel purchases.

There were also questionable expenses related to the vehicle assigned to the Executive Director. An examination of maintenance invoices and credit card receipts showed $803 in billings for detailed car washes. All of the car washes were billed to an administrative account that was allocated across all of Pilsen's programs.

In December 2007, during the exit process to review the draft report, Pilsen provided polices, dated June 2004, governing the use of vehicles. The policies, however, did not include information on the proper use of vehicle credit cards, logging the use of the vehicle, providing receipts for amounts purchased, or whether other costs, such as detailed car washes, are permissible. Also during the exit process, Pilsen provided updated procedures dated August 2007. The new procedures address the proper use of vehicle credit cards and logging the use of the vehicle, but do not require users to submit receipts for gas purchases and do not address what other costs are permissible.

<u>Response</u>: Pilsen has updated its *"Transportation Policy and Emergency Procedures"* document. The revised policies address gas receipt requirements and allowable purchases.

The Business Director will consistently maintain an updated list of all agency-owned vehicles. The listing will provide details regarding make and model number information, year, color, loan repayment status, Vehicle Identification Numbers, License Plate Numbers, Insurance Expiration dates, etc.

Concerns raised regarding conflicting odometer entries may be attributable to the use of a gas card for multiple agency vehicles. To address this issue, Pilsen will implement the use of a Gas Purchase Log for each agency vehicle. Authorized agency drivers will document gas purchases, vehicle operation details, and what method was used to purchase gas (i.e. assigned gas card or in the case of extenuating circumstances personal credit card or cash).

Further, each agency vehicle has been assigned its respective gas purchase card. This should resolve conflicting odometer readings and corresponding gas mileage purchases. The Quality Assurance Director will provide quarterly reviews of gas card invoices to ensure corresponding documentation requirements concur with billed gas purchases.

With regard to expenses incurred for detailed car washes, averaging two per fiscal year, Pilsen considers these costs as related maintenance and upkeep. The vehicle in question has transported visiting dignitaries, government officials, and other important guests to our organization. It provides an initial, and possibly lasting, impression of the organization. As such, Pilsen considers this type of comprehensive maintenance cost, typically on a semi-annual basis, a reasonable expense.

The updated *Transportation Policy and Emergency Procedures* document includes a provision for this allowable expense, however, specifies a requirement for the Business Director's approval prior to incurring these related maintenance and upkeep costs.

<u>Updated Response</u>: Fully Implemented. The updated vehicle list is available with all current information. The Gas Purchase Log is implemented and receipts are collected by the Business Director. The Quality Assurance Department performs monthly reviews of all vehicles' gas purchase logs and the correspondence with the invoice received by the vendor. All discrepancies are investigated and responsible staff alerted. The Business Director approves all services for agency vehicles including maintenance repairs and/or car washes. Comprehensive/detailed car wash related costs were not incurred during FY08 or FY09 to date.

8. Pilsen should ensure that property purchased with State funds is properly controlled and accounted for and not transferred to a third party without documentation of proper consideration received in return. Pilsen should follow-up with DHS regarding the specifics of this transaction to see if any further action needs to be taken.

<u>Findings</u>: In December 1996, Pilsen purchased a 1996 Ford Econoline Cargo Van. The purchase price, including financing, totaled $30,711. Two years later, in December 1998, Pilsen's former Executive Director (who was still Executive Director at the time) personally made the final payment of $5,809.65. Six months later, in June 1999, the former Executive Director asked for and received reimbursement from Pilsen for the final payment. The Accounting Department reported giving the original title of the vehicle to the former Executive Director's Executive Assistant in June 1999.

When asked, the current staff at Pilsen determined that Pilsen was no longer in possession of the van. Information obtained from the Secretary of State showed that the last transfer of title occurred in August 1999. The address for the person listed as the title holder is the same address of the former Executive Director. Staff at Pilsen could not locate any documentation on the decision to transfer the title. Payments for the van were charged to State-funded programs, specifically DHS. No documentation was provided that showed DHS was informed of the transfer of the van.

<u>Response</u>: Pilsen will ensure all property purchased with state funds is properly controlled and accounted for and not transferred to a third party without documentation of proper consideration received in return.

Of important note, the car dealings in question cited in the current OAG report, specifically the reimbursement of the former executive director and the transfer of title, took place during June 1999 to August 1999, a full 6 to 8 months prior to the present Executive Administration assuming organizational leadership.

The Interim Executive Director (July 30, 1999 until March 3, 2000) would have been the individual most directly responsible with ensuring and determining the whereabouts of the vehicle in question. Given his prior working relationship with the former Executive Director and as the second highest in command during that time, the Interim E.D. would have been the most familiar with the vehicle's disposition.

In keeping with OAG recommendations, Pilsen will follow-up with DHS regarding the specifics of this transaction to see if any further action needs to be taken.

<u>Updated Response</u>: Fully Implemented. Pilsen has ensured that all property purchased with State funds is properly controlled and accounted for. Pilsen has discussed the matter of the van with DHS and has provided supplementary information and awaits DHS' decision regarding further action.

9. **Pilsen should comply with its policy which requires that a minimum of two bids be obtained when procuring major maintenance or capital expense items. In cases where it is determined that only one bid is needed, Pilsen should document that the authorized personnel agreed to this decision, with an explanation as to why obtaining only one bid was justified.**

<u>Findings</u>: Pilsen did not utilize competitive bidding for any construction contracts in the expenditure sample. Pilsen's Financial Procedures manual states that a minimum of two bids shall be obtained when procuring major maintenance or capital expense items, $1,000 or greater. An exception to the competitive bidding process may be made when the Executive Director, or the Deputy Director and Chairman of the Finance Committee determine:

1. that the goods or services to be obtained are both unusual in nature and time is of the essence; or
2. when they have determined an individual source procurement is in the best interest of the organization, with cost being a secondary factor.

SINGLE BID CONTRACTS FROM EXPENDITURE SAMPLE			
Date of Contract	**Contract Amount**	**Contract Description**	**Pilsen's Response for Not Obtaining More Than One Bid[1]**
09-19-05	$17,500	Work performed at Administration Office: 1st floor dock/warehouse area and creation of handicap ramp for main entrance.	Pilsen maintenance supervisor recommended this contractor. Other factors considered by Executive Administration included the timeliness for completion and the pressing need for ADA accessibility for persons with disabilities served and employed by Pilsen.
10-13-05	$18,400	Work performed at Administration Office: installation of two complete bathrooms.	Other factors considered by Executive Administration included timely completion and ADA accessibility for persons with disabilities served and employed by Pilsen.
10-13-05	$4,000	Work performed at Administration Office: installation and removal of brickwork.	The Pilsen maintenance supervisor recommended this contractor. Other factors considered by Executive Administration included the timeliness for completion.
10-28-05	$58,000	Work performed at Administration Office: installation of two rooftop heating/cooling units.	Other factors considered by Executive Administration included timely completion of this renovation project.
11-03-05	$2,200	Work performed at Administration Office: roof repair.	The Pilsen maintenance supervisor recommended this contractor. Other factors considered by Executive Administration included the timeliness for completion and the pressing need for these roof repairs to reduce likelihood of further water damage.
12-05-05	$70,000	Work performed at Latino Youth building (2001 S. California): conversion of warehouse space into classrooms and offices.	Other factors considered by Executive Administration included timely completion of this renovation project.
Total	**$170,100**		

Note: [1]For all six contracts, Pilsen officials cited the exception to the competitive bidding process for not obtaining more than one bid. The exhibit notes additional explanations provided for each contract.

Source: OAG summary of contracts from sample of expenditures and responses from Pilsen officials.

In the review of the agency's expenditures, there were six expenditures from six different contracts totaling $170,100 that involved payments to construction companies. Three of the contracts were with the same vendor. In all six instances, Pilsen did not receive a minimum of two bids as required in its Financial Procedures Manual. When asked about the number of bids obtained, Pilsen said that only one bid was obtained for each of the six contracts and cited the exception to the competitive bidding process. However, no documentation was found in the files showing approval for using the exception to the competitive bidding requirement or any justification for obtaining only one bid.

In addition, no invoices documenting the work completed were found for any of the six expenditures in our sample. Instead, payment was made based on terms either established in the agreement or as specified on Pilsen's check request forms. Pilsen officials stated that they do not typically request the contractor to provide related invoices associated with contract expenditures.

Response: Pilsen Business Department staff will document justifications for exceptions to the competitive bidding process made by the Executive management and/or the Chairman of the Finance Committee as allowed by the Financial Procedures Manual when it has been determined that the goods or services to be obtained are both unusual in nature and time is of the essence; or when they have determined an individual source procurement is in the best interest of the organization, with cost being a secondary factor.

The Pilsen Business Director will maintain an updated vendors list, which will include past, present, and potential contractors. An updated agency vendors list will support and facilitate an expedited process to secure multiple bids for future contracted services and projects.

Updated Response: Fully implemented. No exemption to the competitive bidding process has occurred to date. The Business Director maintains all bids documentation on file and has developed a list of current vendors and updates it periodically. In addition, the Business Department keeps a file for each contractor submitting a bid for future reference.

10. Pilsen should ensure that Check Request forms are properly completed and contain all approvals that are required. Pilsen should also specify in its Financial Procedures Manual the review required by the Board Treasurer.

Findings: Pilsen uses a Check Request form that must be completed for all expenditures. In the review of expenditure files, auditors noted the following:

- Check requests often lacked supervisor approval. In the sample of expenditures, 77% (168 of 217) of check requests did not have supervisor approval. For check requests that did have supervisor approval, the person signing under supervisor approval was the same as the person requesting the check in 41% (20 of 49) of the cases.

- There was business office approval in 99% of the check requests.
- Pilsen's Financial Procedures Manual specifies that the Board Treasurer "…should review all paid disbursements, including cancelled vouchers subsequent to month end." Most check requests the auditor reviewed were not initialed by a Board member indicating the expenditure had been reviewed. Pilsen officials stated that the review process does not require initialing each check request but instead entails reviewing the monthly financial statements. Pilsen's Financial Procedures Manual should be more specific as to the type of review required.

Once the check request is approved, a check is issued. Each check must be signed by two authorized check signers. The authorized check signers are the Executive Director, the Deputy Director, and the Controller. Our review of checks noted the following:

- All checks reviewed contained two authorized signatures. However, in 77% of the checks reviewed, one of the two signatures was a signature stamp for the Executive Director.
- One check for $362.29 was made out to an individual that was also one of the two signatures on the check. The second signature on the check was the signature stamp.
- One check for $1,000, made out to "Cash", was endorsed by an individual that was also one of the two signatures on the check. The second signature on the check was the signature stamp.
- One check for $192.50 was requested by, approved by, and made out to the same individual. The individual was also one of the two signatures on the check.

Response: P-LVCMHC corporate compliance officer will schedule and facilitate reviews of disbursements by indicated Board Members. Accounting personnel will make disbursements available as needed for review by Board Treasurer. Lastly, Pilsen will specify in its Financial Procedures Manual the review by the Board Treasurer and follow procedures as indicated.

Updated Response: Fully implemented. The Accounting Department supported by the Business Director and the Corporate Compliance Officer ensure the adherence to established procedures relating to the check request approval process. All appropriate signatures and supporting documentation are collected as required by Pilsen financial policies and procedures.

The Financial Procedures Manual has been updated and procedures have been approved by the Board of Directors. The board Treasurer receives a list of all disbursements and selects a sampling to review. The disbursements are then made available for review in accord with Pilsen's Financial Procedures Manual.

11. Pilsen should examine its cell phone usage and packages to determine the optimal number of phones and the types of packages needed. Pilsen should also explore combining its cell phones with one provider to realize efficiencies and minimize charges.

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

The Financial Procedures Manual, dated July 8, 2004, noted that only six cell phones have been authorized. However, Pilsen had 15 cell phones with three different providers: 9 phones with one provider, 5 phones with a second provider, and the Executive Director's cell phone was through a third provider. Pilsen officials stated that the Financial Procedures Manual will be updated in order to reflect the new number of cell phones. Exhibit 2-5 shows cell phone charges incurred by Pilsen from the three cell phone companies during fiscal years 2005 and 2006.

<u>Response</u>: P-LVCMHC, Inc. Business Director has begun examination of cell phone usage rates and has identified packages that can be eliminated without incurring termination penalties. After completion of an informed internal assessment, phone carriers will be consolidated as needed and packages renegotiated to optimize savings and minimize charges.

Of important note a number of cell phones are used for emergency and on-call purposes only and are a mandatory program component. Low minute totals reflect few emergency calls and/or minimal calls necessitating after hours contact by assigned program staff.

<u>Updated Response</u>: Fully Implemented. The Business Director has completed the internal assessment of agency cell phone plans. Pilsen has consolidated all phone contracts and now utilizes a single carrier (US Cellular) offering affordable rates and reliable service, thus maximizing efficiencies and minimizing charges.

12. Pilsen should seek a refund of any property taxes inappropriately paid for and charged to State-funded programs and repay the State any monies due.

<u>Findings</u>: During fiscal years 2005 – 2006, Pilsen paid over $30,000 in property taxes. Pilsen operates as a not-for-profit corporation and qualifies for an exemption from property taxes. Over $18,000 was charged primarily to State-funded programs either as a direct cost or through the cost allocation plan. Subsequent to paying the property taxes, Pilsen obtained tax exempt status for two properties. After the completion of fieldwork, Pilsen received a refund in November 2007 for $16,661 of the property taxes paid.

Pilsen owns and operates a number of facilities in Chicago and the Chicago area. During fiscal years 2005 – 2006, Pilsen paid property taxes at three of the locations. Pilsen also paid property tax in Lee County for a lot donated to the organization. The exhibit details the property taxes paid during fiscal years 2005 – 2006. In addition to paying property taxes, Pilsen has also incurred legal expenses related to the filing of exemptions.

PROPERTY TAXES PAID BY PILSEN
Fiscal Years 2005-2006

Facility	Facility Address	Property Taxes Paid in FY05	Property Taxes Paid in FY06	Total
Stone Park – Methadone Treatment Facility	1546 N. Mannheim Road Stone Park, IL	$12,201.70[1]	-	$12,201.70
TOYS Program	1407 S. 49th Court Cicero, IL	$5,308.47	$11,417.96[2]	$16,726.43
Donated Lot	2838 W. 21st St. Chicago, IL	$652.36	$723.08	$1,375.44
Woodhaven Lakes Lot	Sublet, IL	$16.48	$46.17	$62.65
	Total:	**$18,179.01**	**$12,187.21**	**$30,366.22**

Notes: [1]On November 23, 2007, Pilsen received a refund totaling $11,085.15 of the $12,201.70 in property taxes paid in fiscal year 2005.

[2]On November 28, 2007, Pilsen received a refund totaling $5,575.48 of the $11,417.96 in property taxes paid in fiscal year 2006.

Source: OAG summary of Pilsen property tax information.

Not-for-profit or 501(c)(3) corporations are not automatically exempt from paying property taxes. To qualify, the organization must be an exclusively beneficent and charitable organization and own the property that is used exclusively for charitable purposes. The organization must then apply for the exemption.

Response: An application for tax-exemption cannot be submitted until after closing on a Real Estate Property purchase. Processing and acceptance of such applications by involved government bodies may be completed well beyond the time period when property taxes are due.

The process for securing tax-exempt status for all qualified P-LVCMHC, Inc. properties has been completed, specifically the Stone Park Methadone Treatment Facility and the TOYS Children Mental Health program in Cicero, Illinois. Applications for all remaining tax refunds involving the aforementioned properties have been submitted. The refunds remain pending with the Cook County Assessor's Office.

<u>Updated Response</u>: Partially Implemented. Pilsen has submitted applications for tax-exempt status for all remaining qualified properties as recommended. The Business Director has submitted all applications for remaining tax refunds on qualifying Pilsen properties. Partial refunds for the TOYS program have been received. The agency has made a formal request to IDHS regarding a waiver of any outstanding funds for recoupment in light of the organization's consistent servicing of clients across the City of Chicago and suburban areas due to our specialty in serving Latino-origin clients without contractual or funding consideration of any kind.

During the past 3 fiscal years, more than 50 percent of clients served by Pilsen were non-Medicaid eligible and/or uninsured. In spite of the resulting significant budgetary limitations, we never failed to treat clients in need of culturally sensitive services regardless of where they lived. In doing so, Pilsen inadvertently became the "*catchall*" for other agencies and institutions ill equipped to manage Spanish-only clientele. The benefits for IDHS are clear. The non-insistence with regard to adherence to catchment parameters, ultimately supported and assisted IDHS in fulfilling its mandate to provide mental health services for Illinois residents in need without regard to race or ethnicity.

The total cost to Pilsen for this allegiance and *open door policy* far surpasses the amount of funds in question today, or more specifically the amount of funds it would cost IDHS to buttress services for Latinos residing in other Chicago areas. P-LVCMHC, Inc. awaits a decision by IDHS regarding the waiver request.

13. Pilsen management and Board of Directors should assess the nature of its transactions with its Board members and determine whether such transactions should be disclosed as related party transactions in its audit report, pursuant to professional accounting standards.

<u>Findings</u>: During the review at Pilsen, the auditors noted related party transactions involving Pilsen and Pilsen's newest Board member. These related party transactions involved the leasing of property, the sale of property, and the purchase of property are noted on the exhibit on the following page.

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

<u>Response</u>: Pilsen respectfully disagrees with recommendation 13 and related comments. AICPA SOP 94-6 discusses the matter of control in the matter of not-for-profit entities. Pursuant to the guidance provided for in SOP 94-6, specifically relating to the matter of control of not-for-profit organization, it was our judgment that disclosure as a related party transaction was not necessary given the facts and circumstances.

The Auditor General's report clearly indicated it was Pilsen that entered into leases with the building located at 2001 South California Avenue. This is in error. Latino Youth Inc., a separate legal entity with its own Board of Directors, entered into the original leases. ***(See Auditor Comment #2)*** The new Pilsen board member cited by the OAG report purchased the old Latino Youth High School Building directly from Latino Youth, Inc. in June 2006. No influence was exerted by the Pilsen or its executive director in the sale of the old Latino Youth building to the purchaser who is a successful and experienced real estate investor. ***(See Auditor Comment #3)***

In August 2006, after the fiscal year in question of June 30, 2006, the Pilsen Little Village Community Management Organization, a distinct legal entity not under the control of Pilsen Little Village Community Mental Health Center, purchased the building at 2001 S. California Avenue. The Pilsen Little Village Community Management Organization (P-LVCMO) subsequently rented a portion of the building to Latino Youth, Inc. a separate and distinct entity from P-LVCMHC, Inc.

It is our judgment that no disclosure was necessary for the transactions in question during the fiscal year ended June 30, 2006, as there were three boards of directors in place, one for each of the distinct legal entities. ***(See Auditor Comment #4)*** While it is true that the Executive Director was the same for all three entities, each board was independent and could exert control over any of the transactions in question by the OAG report. We relied on SOP 94-6 and the material fact that the purchase of 2001 South California occurred after June 30, 2006. ***(See Auditor Comment #5)*** In fact, as this report indicated, the purchase was completed on August 24, 2006. ***(See Auditor Comment #6)***

Prior to finalizing our June 30, 2007 financial statements, our auditor advised us of the necessity to disclose, and we did disclose, the purchase of the 2001 S. California building by the Pilsen Little Village Management Organization. This was disclosed in our June 30 2007 financial statements because the purchase took place during fiscal year 2007 and on December 1, 2006, Pilsen directly took over various contracts, which were previously contracted with Latino Youth, Inc. ***(See Auditor Comment #7)*** In essence during the fiscal year ended June 30, 2007, Pilsen ended up paying the Pilsen Little Village Community Management Organization rent on the building that was formerly owned by a Limited Liability Company in which a Pilsen board member had a 30 percent interest. Both these events occurred during fiscal year ending June 30, 2007 which was, in our judgment, required to be disclosed, and was disclosed in the June 30, 2007 audited financial statements. ***(See Auditor Comment #8)***

Auditor Comments: #2: Contrary to Pilsen's assertion, the report is **not** in error. The December 16, 2005 lease agreement for the property at 2001 S. California, lists the tenant as "Pilsen-Little Village Community Mental Health Center, Inc." and not Latino Youth, Inc. Pilsen's Executive Director signed the lease agreement as the tenant and Pilsen made the lease payments. Relevant pages from the lease agreement are attached to these Auditor Comments in Appendix E (see pages 115-118).

#3: Financial Accounting Standards (FAS) No. 57 does not require influence to have actually been exerted to result in a related party transaction that is required to be disclosed; rather, FAS No. 57 requires disclosure if significant influence "can" be exerted. Likewise, the audit does not conclude that significant influence was exerted. What the audit does conclude, however, is that relationships existed where influence could be exerted. As Pilsen notes in its response, Pilsen's Executive Director was also the Executive Director of the other two entities. Also, a Pilsen Board member had an ownership interest and was involved in the real estate transactions. Furthermore, at the time of the sale in June 2006, Pilsen had assumed control of the management of the Latino Youth Alternative High School.

#4: On June 30, 2006, there would not have been a board of directors in place for the Pilsen Little Village Community Management Organization as that organization was not formed until August 24, 2006.

#5: AICPA Statement of Position 94-6 deals specifically with disclosure of certain significant risks and uncertainties including significant estimates and material concentrations known to management. Related party transactions are a separate disclosure. FAS No. 57 and SAS No. 45 define related parties as a party that "…can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other…" FAS No. 57 requires that financial statements include disclosures of material related party transactions.

#6: While the purchase of the property at 2001 S. California occurred during fiscal year 2007, two other transactions, the leasing of the property at 2001 S. California and the sale of the old Latino Youth building at 2200 S. Marshall, occurred during fiscal year 2006.

#7: Pilsen's audit of its June 30, 2007 year end financial statements was not completed at the conclusion of our fieldwork, and if it has been subsequently completed, a copy has not been provided to the auditors.

#8: We find it inconsistent that Pilsen concluded that a related party disclosure needed to be made in its fiscal year 2007 audited financial statements but not its 2006 statements. In citing the need for the disclosure in fiscal year 2007, Pilsen notes that they were making rental payments to the Pilsen-Little Village Community Management Organization for a building formerly owned by a Limited Liability Company in which a Pilsen Board member had a 30 percent interest. However, in 2006 a similar situation existed where Pilsen made lease payments directly to a Limited Liability Corporation in which a Pilsen Board member had a 30 percent interest.

Updated Response: Pilsen consistently assesses the nature of its transactions with its Board members and discloses related party transactions in accord with professional accounting standards.

Pilsen insists that the related party transactions noted in the OAG report were appropriately disclosed pursuant to the guidance provided for in AICPA SOP 94-6, specifically relating to the matter of control of not-for-profit organizations. Further, both events in question cited by the OAG report occurred during fiscal year ending June 30, 2007 which was, in our judgment, required to be disclosed, and was disclosed in the June 30, 2007 Pilsen audited financial statements.

Of note, our CPA discussed this matter with his peer review firm. The peer review partner indicated that the disclosure was not necessary for the year ended June 30, 2006, although such disclosure would not be prohibited. As the transaction occurred during the year ended June 30, 2007, the disclosure was necessary for the year ended June 30, 2007 as discussed above.

14. Pilsen should take the following actions:

- **Ensure that the use of the corporate credit card complies with Pilsen's Financial Procedures Manual. The purpose of the credit card purchases should be clearly documented on the receipts or other supporting documentation. Pilsen should also ensure that only the Executive Director uses the corporate credit card.**
- **Ensure that increases in the credit limit for the corporate credit card be approved by the Board President as required in the Financial Procedures Manual. Furthermore, approved credit limits should not be circumvented by making early credit card payments.**
- **Ensure that expenditures are paid promptly to avoid paying finance charges and late fees and also ensure that any fees incurred are not charged to State-funded programs.**

Findings: Pilsen's Financial Procedures Manual specifies that only the Executive Director is entitled to use a corporate credit card. This card is only to be used for legitimate business purposes of the agency such as: travel, meals, auto rental, lodging, etc. The Financial Procedures Manual further specifies that charges of $50.00 or more shall be documented by original receipt. In a sample review of the agency's expenditures, 15 of 42 purchases over $50 did not have the required receipts.

Receipts that were submitted often lacked detail to be able to determine exactly what was purchased, the purpose of the meal, or who attended. For example, many of the purchases were at restaurants or other food establishments. Often the receipt would show only the total amount and not an itemized listing of the meals or food purchased. Because of this, the auditors were unable to determine the legitimacy of these purchases. Also, based on the receipts, persons other than the Executive Director used the credit card.

Increases in credit limit can only be approved by Pilsen's Board President. When the credit limit was increased from $1,000 to $2,000 and again to $3,500, Board meeting minutes for that time period did not indicate that increases were approved during Board meetings.

In a sample review of the agency's expenditures, the auditors reviewed 14 expenditures that contained $1,383 in finance charges, late fees, or over limit fees. These fees were for expenditures that included credit card payments, telephone charges, property tax payments, loan payments, and lease payments. The majority of these fees were charged to unallocated accounts and not directly to a program. Of the $1,383 in fees, $35.23 was charged to State-funded programs and $317.77 was charged to the Latino Youth High School.

Response: With regard to the Executive Assistant's name on some receipts for food purchases, this individual served as the point of contact for restaurant vendor delivery persons.

The Financial Procedures Manual will specify any designees, in addition to the Executive Director, permitted to use the corporate credit card for the express purpose of receiving and paying for food purchase deliveries. The Executive Director's Executive Assistant will also gather detailed credit card receipts in addition to signature receipts and will properly record purchase purposes. This individual will also include and attach any related information and/or supporting documentation.

The Quality Assurance Department shall perform random semi-annual reviews of credit card purchases, receipts, and supporting documentation. Any discrepancies found during these reviews will be documented and presented to the Executive Director for action.

In keeping with the Pilsen Financial Procedures Manual, the Board President approval for credit line increases will be secured prior to acceptance of credit card issuer initiated limit increases.

The Accounting Department will continue to make every effort to process payments quickly, which includes the review of fiscal procedures to improve operational efficiencies. The fiscal department will charge any possible resulting penalties to unallocated administration accounts.

Updated Response: Fully Implemented. Credit card purchases are backed up with the corresponding receipts indicating purpose of the purchase. The Accounting Department uses this information to properly allocate the expenses. Efforts are made to avoid late fees and in the event this occurs they will be charged to an unallocated administration account. The Quality Assurance Department performs monthly reviews of expenses and their corresponding supporting documentation.

15. Pilsen should ensure that travel expenditures are properly documented, charged to the correct detailed object code, and approved in advance by the funding agency if in excess of 250 miles out-of-state. Pilsen should also implement controls to ensure that owed reimbursements are timely obtained.

<u>Findings</u>: The auditors reviewed 17 expenditures, totaling $9,613, that involved out-of-state travel. These included travel to Mexico, California, Florida, Georgia, Arizona, and Washington, DC. Travel expenses included airfare, hotel, and per diem. Nine of the expenditures were charged to State-funded programs while seven expenditures were charged to unallocated accounts. For the remaining expenditure, at least part of the amount was charged to State-funded programs but it was unclear how the entire amount was charged. The auditors noted the following concerns:

- Two of the expenditures totaling $1,068, lacked supporting documentation. One was airfare for a trip to Mexico and had no supporting documentation other than the check request form. The other expenditure was a hotel stay for a conference in Orlando. The hotel was prepaid but lacked a receipt from the actual stay.
- For two expenditures, the check request form noted that Pilsen was to be reimbursed for the expense, however, in both cases, the reimbursement did not occur. The amounts to be reimbursed totaled $1,187.
- For two expenditures, there was a conflicting issue involving the accounts charged. The two expenditures involved a trip to Washington, DC. One expenditure was for airfare for the Executive Director and a Pilsen employee. The other expenditure was the hotel stay for the trip. The airfare was charged to an administration account that is allocated to all Pilsen programs while the other was charged to an unallocated account. The expenditures should have been consistently classified.

Pilsen's Financial Procedures Manual states that all travel in excess of 250 miles out-of-state must be approved in advance by a regulatory agency in writing, prior to making travel arrangements. The expenditure files contained no evidence of such approval for any of the expenditures in our sample.

<u>Response</u>: Pilsen stresses that all out-of-state travel costs were for agency-related and/or program-related activities.

Pilsen will consistently document purpose of travel, related activities, and make appropriate allocations. Further, agency staff will secure funding source approvals for travel destinations in excess of 250 miles out-of-state.

Lastly, the Pilsen Accounting Department will implement new procedures to track all expenditures requiring reimbursement from individuals at the time the check is issued. The fiscal department will perform monthly reviews of pending reimbursements.

Updated Response: Fully Implemented. Executive Administrative personnel collect supporting documentation related to travel expenditures and activities in compliance with this recommendation. Further, the Fiscal Department performs monthly reviews regarding pending reimbursements to ensure timely recoupment. The Quality Assurance Department also provides additional periodic monitoring of travel-related allocations and reimbursements. Pilsen will ensure that travel in excess of 250 miles out-of-state that would potentially be charged to IDHS programs will receive appropriate IDHS approval in advance.

16. Pilsen should develop a tuition reimbursement policy that specifies the conditions for having tuition reimbursed and the documentation required to verify the course was completed. Pilsen should also ensure that tuition is billed to the proper programs.

Findings: Pilsen lacks a tuition reimbursement policy that could outline the procedures and conditions for having tuition reimbursed. Pilsen officials stated that tuition reimbursement is evaluated on a case-by-case basis.

The auditors reviewed three expenditures that involved reimbursement of tuition for Pilsen employees. Two of the expenditures sampled, totaling $4,900, were for tuition payments for the Executive Director's doctoral degree program. Tuition payments were made directly to the school. Expenditure files did not contain documentation verifying actual attendance or successful completion of the courses taken. The expenditures were billed to Unallocated Administration, which is not allocated to State-funded programs.

Updated Response: Fully implemented. The Tuition re-imbursement policy has been developed and incorporated into the Financial Procedures Manual. Costs related to allowable tuition will be properly allocated.

17. Pilsen should ensure that gratuities are not charged to State-funded programs. Pilsen should also not pay sales tax that it is not required to pay due to sales tax exemptions.

Findings: Pilsen paid gratuities that were charged to State-funded programs. The auditors reviewed 13 expenditure files that involved the payment of gratuities. Within these expenditures there were 36 instances, totaling $581.04, where gratuities were paid by Pilsen. These gratuities were all for food and beverage purchases. Four purchases included gratuities totaling $363.34 that were charged directly to State-funded programs. There were also 11 purchases totaling $78.40 in gratuities charged to an administration account that is allocated to all programs. The remaining $139.30 in gratuities were charged to an unallocated account. Also, in the expenditure files reviewed, the auditors noted instances where Pilsen paid sales tax.

<u>Response</u>: Effective immediately, Pilsen will allocate all gratuities to unallocated administration accounts. We will also remind all employees to consistently use the agency's sales tax exemption letter when making purchases for Pilsen.

<u>Updated Response</u>: Fully Implemented. Allocations for all disbursements are being reviewed by both the Controller and the Business Director. In addition, checks are being signed by the Budget Analyst and the Corporate Compliance Officer, who perform additional reviews to ensure that proper allocations regarding sales tax and gratuities are made prior to the completion of disbursement process.

18. Pilsen should ensure that written agreements are in place prior to the consulting work being performed. The agreements should specifically outline the services to be performed and the payment terms for those services. Pilsen should also obtain documentation for the work performed.

<u>Findings</u>: Pilsen utilizes consultants or outside contractors to perform a number of functions. Auditors noted four expenditures totaling $7,463 for consultants that either lacked written agreements or the agreement lacked detail for the work to be performed.

In three expenditures, there was no written agreement outlining the work to be performed or delineating the payment terms:

- The first expenditure for $1,250 was for consulting services in connection with transition strategies in acquiring Latino Youth, Inc. The supporting documentation for this expenditure was a memorandum written by a Pilsen employee after the work had been performed that stated the hours worked by the vendor (25 hours) and the rate ($50) per hour.
- The second expenditure for $2,400 was for consulting services regarding the evaluation of a special project funded through the Chicago Department of Public Health (CDPH). Payment documentation showed the vendor being paid $40 per hour for 60 hours of work. The majority of the work was described as data entry.
- The third expenditure for $1,313 was for consulting services regarding focus groups for a special project. The only documentation was an invoice submitted after the work had been performed which showed the vendor was paid $75 per hour for 17.5 hours of work.

A fourth expenditure had a consulting contract but the agreement lacked detail for the work to be performed. The one-page contract specified payments of $2,500 per month for a one year period. The agreement stated that the vendor was "…to provide public relations and consulting services for Pilsen Little Village Community Mental Health Center and its various entities." The agreement contained no further detail on the services to be provided.

Response: Pilsen will secure written agreements prior to the onset of consulting work. The agreements will provide sufficient detail regarding performed tasks and reimbursement terms. Further, documentation outlining work results will be required for support of expenditure.

Updated Response: Fully Implemented. All consultant agreements are on file. Further, supporting documentation regarding expense results are attached to the check request form.

19. The Departments of Human Services (DHS), Public Health, and Healthcare and Family Services, as well as the Illinois State Board of Education, should follow up on the questionable expenditures reported in this audit and seek recovery of any inappropriately expended State funds.

DHS should also assess Pilsen's practice of supporting deficit programs with funding intended for other programs.

Findings: Pilsen received 76% of its funding from the State during fiscal years 2004 – 2006, primarily from the Department of Human Services. Pilsen also received funding from the Department of Public Health, the Illinois State Board of Education, and the Department of Healthcare and Family Services.

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

DHS Response: Agree. The DHS will follow up on questionable expenditures identified in the audit and will take appropriate action to resolve these expenditures. DHS will also discuss the deficit spending issue cited in the report with Pilsen where deficit spending affects our grants. DHS also requires Pilsen to submit annual independent audit reports (A-133 Audits) and performs a desk review and analysis of the information contained in the report. DHS is currently working with Pilsen to obtain corrective action plans for the most recently submitted report. The DHS Divisions that fund Pilsen through grants will work with the DHS Office of Contract Administration to verify that recovery action has not been previously taken through their A-133 reviews or Grant Report.

DHS Updated Response: Appropriate DHS divisions are following up on questionable expenditures identified in the audit in order to take appropriate action to resolve these expenditures:

<u>DHS' DIVISION OF MENTAL HEALTH (DMH):</u>

The Illinois Department of Human Services, Division of Mental Health (DHS/DMH) has reviewed the expenditures documented in the OAG audit report and contacted Pilsen on May 7,2008 with the results of our review.

DHS/DMH used the information contained in the OAG audit report to calculate the recovery amount. Pilsen responded on May 23rd and a meeting was held on August 5, 2008. Pilsen again responded on September 5, 2008.

DHS/DMH, in conjunction with the DHS Office of Contract Administration, recalculated the questioned expenditure in Recommendation #3 using information from the FY 2006 independent audits of Pilsen and Latino Youth.

In addition, DMH/DD staff examined additional personnel records and client files related to Recommendation #16. DMH/DD is now in the process of meeting with Pilsen to finalize the recoupment amount and the method of payment.

When this is completed DHS/DMH will work with the DHS Office of Contract Administration to verify that no previous recovery action has been initiated and to recover any outstanding amount.

<u>DHS' DIVISION OF COMMUNITY HEALTH AND PREVENTION (CHP):</u>

The Division of Community Health and Prevention (CHP) has reviewed the FY2005 contract awards and expenditures documentation reported by Pilsen.

CHP review noted that Pilsen was awarded $55,054 (for ATOD services) in FY2005 and in FY2006, $55,054 (for ATOD services) and $70,000 (for Teen Pregnancy & Prevention).

In FY2005, Pilsen documented expenditures for $78,513.23 in FY2005 (for ATOD services) and in FY2006, $72,781.11 (for Teen Pregnancy & Prevention) and $55,477.46 (for ATOD services).

DHS Office of Contract Administration records indicate that the expenses incurred on the above fiscal years were allowable expenditures.

A review was completed on 4/12/2006, based on the SFY05, ATOD award. In FY2007 CH & P also implemented a three year monitoring review cycle for providers, and this provider was selected and reviewed in January of FY2008.

<u>DHS' DIVISION OF ALCOHOLISM & SUBSTANCE ABUSE (DASA):</u>

DHS DASA reconciles contractually agreed upon purchased services with services reporting per the contract requirements. DASA disburses and reconciles award payments on the basis of a Fee-for-Service methodology to Pilsen Little Village. Award payments are reconciled at the point of Fee-for-service payment.

DASA is currently working with OCA to verify that recovery should not be needed based on the reconciliation at the point of Fee-for-service payment. If any concerns are identified by OCA staff, and reported to DASA, DASA staff will work collaboratively with OCA and the provider(s) to resolve any issues/areas of concern identified within the scope of our contractual relationship with the provider.

DHS' OFFICE OF CONTRACT ADMINISTRATION (OCA):

The DHS Division of Mental Health (DHS/DMH), in conjunction with the DHS Office of Contract Administration (OCA), recalculated the questioned expenditure in Recommendation #3 using information from the FY2006 independent audits of Pilsen and Latino Youth.

The Office of Contract Administration is awaiting a final determination of lapsed funds by DHS/DMH before pursuing recovery.

DPH Response: With respect to DPH's response to Recommendation #19, as specifically stated in our agency's response to Recommendation #1, the department has already sent certified letters to Pilsen Little Village Mental Health Center to recover the unexpended funds from two separate grants provided to this grantee.

DPH Updated Response: The Department sent two certified letters (one for each grant) to this particular grantee on December 20, 2007 seeking repayment of the questioned amounts. The grantee responded on January 8, 2008 with a repayment schedule for both of these grants. To date, they have not satisfied the repayment schedule and we are in contact with the grantee to ensure that the payments are received.

DHFS Response: As stated in the audit, the Department of Healthcare and Family Services (HFS) reimbursed Pilsen for a minimal amount of medical services. These were for fee-for-service community mental health services, with no additional grant or contractual payments. As an enrolled provider, these were payments reimbursed on a fee-for-service basis in accordance with an established fee schedule. HFS payments to Pilsen have no relation to the questionable expenditures documented in the draft report. Thus, there would be no opportunity, or need, for recovery based on the issues raised in the audit. Pilsen is, and will continue to be, subject to service documentation requirements established for all providers.

DHFS Updated Response: No change.

ISBE Response: ISBE will review the questionable expenditures reported in the audit in comparison to expenditures reported by the grantee to determine what follow-up is appropriate.

ISBE Updated Response: ISBE reviewed the questionable expenditures identified in the audit. These questionable expenditures were not specifically linked to ISBE funding. ISBE does not have the authority to review expenditures related to other State programs and would not be able to determine that the allocation of expenditures between programs was appropriate.

Deficit Programs

Some of the programs at Pilsen operated at a deficit; they incurred more expenses than the revenue received to operate the programs. Overall, Pilsen operated at a deficit of $33,229 in FY05.

In fiscal year 2006, Pilsen operated at a deficit of $2,747. An expense analysis showed expenses were charged to 32 cost centers. Of these 32, 12 operated with a surplus while 20 operated at a deficit.

Pilsen's Board, on at least two occasions, discussed that the Mental Health Division is supporting the Substance Abuse Division. One Board member stated that Pilsen needs to re-evaluate its programs and if a program is running a 20 – 30 percent deficit over a three-year period then perhaps it needs modified or cut. Board members have also discussed cash flow issues, managing mortgage payments, and, at one point, it was noted that Pilsen had a zero balance on its line of credit.

Pilsen's FY06 financial statements showed notes payable of $2.9 million. In addition, in August 2006, Pilsen borrowed $5.85 million to purchase property at 2001 S. California for the Latino Youth Alternative High School. A DHS review of Pilsen's 2004 financial statements noted that Pilsen had a fund balance deficit, which is indicative of potential difficulties in meeting long-term obligations. The fund balance deficit was $1,091,494 which had worsened from the previous year's deficit of $770,414. Similarly, a DHS review of Pilsen's 2005 financial statements noted that Pilsen's fund balance deficit was $1,213,980, which had worsened from the previous year's deficit of $1,091,494.

The increase in the number of programs operated by Pilsen has had other consequences for the agency. The independent audit of fiscal year 2006 financial statements contained four findings. Each of the four findings indicated that the cause of the finding was because Pilsen took over the management of another tax exempt organization and added additional programs without a corresponding increase in qualified accounting personnel.