

# LEGISLATIVE AUDIT COMMISSION



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

Updated Responses  
August 1999

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**MANAGEMENT AUDIT  
AUGUST 1999**

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

**UPDATED RESPONSES**

**RECOMMENDATIONS - 17**

**BACKGROUND**

House Resolution No. 385, adopted May 20, 1998, directed the Auditor General 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.

The Audit Commission originally heard this report in January 2000. At that meeting Commission members decided to take no action on the audit at that time and instead agreed to hear updated responses later in the year.

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 is organized as a not-for-profit organization Under Section 501(c)(3) of the Internal Revenue Code. During the audit period, Pilsen was overseen by a Board of Directors and managed by three executive officers. At the January hearing, Omar Lopez was Board president. The Chief Executive Officer, who had been with Pilsen since 1969, resigned in September 1999. The Chief Fiscal Officer, Prabodh Vaidya, left the agency toward the end of FY98. The Chief Program Officer, Luis Ortiz, was the organization's new director. He was terminated as of March 1, 2000. Current Pilsen leadership includes Francisco Cisneros, Chief Program Officer and Board co-chairpersons, Louis Lara and Omar Lopez. All three gentlemen were associated with Pilsen during the audit period and previously.

During FY98, Pilsen received over \$4 million from various sources, including almost \$3 million in grants, \$676,085 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,

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comprised 85% of Pilsen's total grant and fee for service funding in FY98. Pilsen's current contract has been extended by DHS until September 30, 2000 when a new RFP for services will take effect. Pilsen and at least two other organizations bid to provide these services.

On June 2, 2000, the staff of DHS' Office of Contract Administration's Bureau of Contract Compliance released its Fiscal/Administrative Review of Pilsen. The purpose of the Review was to determine Pilsen's implementation status of the 16 recommendations presented by the Auditor General plus seven additional recommendations developed by DHS' staff during its November 1999 visit.

DHS visited Pilsen in August 1999, November 1999, March 2000 and May 2000. There was movement towards addressing the deficiencies identified only during the May 2000 visit. As a result, the majority of the original findings by the Auditor General are marked "fully implemented" only because the policies and procedures now in place are adequate to address the finding. In fact, insufficient time has elapsed to ensure that these policies will be applied consistently. According to DHS, Pilsen has developed comprehensive fiscal policies and procedures which address most of the operational areas found to be deficient.

## **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. The updated responses following are from the June 2, 2000 DHS Review.

**1. Continue to seek refunds of any monies inappropriately paid for and charged to State-funded programs and repay the State any monies due.**

**Original Response:** Pilsen management had previously contacted the proper authorities to seek refunds for payment of taxes. Once these payments are returned, Pilsen will repay the State any monies due.

**Updated Response:** Fully implemented. Pilsen management has taken steps to collect all refunds for property tax overpayments. Grant fund recovery payments were made, and final and full payment to DHS of the monies due was made on June 8, 2000.

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**DHS Assessment:**           **Substantially implemented. Pilsen has repaid \$76,000 to DHS, with a final payment scheduled for June 2000.**

**Findings:**   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 an administrative overhead through the cost allocation plan.

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.

**2. Develop and implement a consistent cost allocation plan that does not shift a disproportionate amount of their indirect costs to State-funded programs.**

**Original 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.

**Updated Response:**       Fully Implemented. A cost allocation plan was prepared by an accounting firm and implemented March 30, 2000. The plan was submitted to DHS and deemed satisfactory.

**DHS Assessment:**       Partially implemented. Pilsen has a program cost allocation plan which was developed by the fiscal consulting firm of Rockoff, Harlan, Rasof. However, the plan does not distinguish between indirect costs and management/general (e.g., overhead) costs. We were told that the consultants will evaluate and appropriately revise the plan by the end of the current fiscal year.

**Findings:**   Inconsistent allocation of indirect costs resulted in overcharges to State-funded programs during FY97 and FY98 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.

During FY97-98, Pilsen spread indirect costs (also known as Management and General Expenses) over 15 programs. The State funded 11 of these 15 programs. For the two years under review, the auditors found that State-funded programs were overcharged \$57,162.77 in FY97 and \$50,739.35 in FY98. 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

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administrative costs. 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.

- 3. Properly report bonuses as employee income on W-2 statements; only charge pay increases related to employee performance to State programs. The Board of Directors should formally review and approve all bonuses granted to employees.**

**Original 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.

**Updated Response:** Fully implemented. All salary/wage increases are to be reviewed annually, based on funding, merit and written evaluations.

**DHS Assessment:** Fully implemented.

**Findings:** In calendar years 1996 and 1997, Pilsen provided bonuses to employees of \$38,451 in calendar 1997 and \$20,282.29 in 1996.

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. Further, it was unclear whether bonuses provided to staff were related to performance 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. There was no documentation that Pilsen's Board of Directors formally reviewed or approved the bonuses issued to employees.

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.

- 4. Pilsen management should not use Pilsen funds to make political contributions.**

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**Original 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.

**Updated Response:** Fully implemented. Policy prohibiting use of Pilsen funds to make political contributions is strictly enforced.

**DHS Assessment:** Fully implemented. Pilsen's current policy prohibits political contributions.

**Findings:** Political contributions made by Pilsen during FY97 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.

**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 contractual wages are adequately reported and documented; and**
- **Require employees adequately document time away on agency business.**

**Original 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;

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- 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.

**Updated Response:** All of the recommendations have been fully implemented.

**DHS Assessment:** All of the recommendations have been fully implemented.

**Findings:** *Allocation of Salaries:* Several Pilsen employees 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 the allocations were set by the Chief Financial Officer (CFO). 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.

*Questionable Payment for Unauthorized Absences:* Pilsen paid the former CFO over \$16,000 in wages when sign-in sheets indicated the CFO was on unauthorized absence without pay on 41 occasions, which projects to \$16,557.85 in pay that should possibly have been withheld. According to Pilsen management, as of early FY99 the CFO no longer worked for the agency.

*Double Payment for Psychiatric Services:* An error 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:* Pilsen inappropriately allocated \$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:* Pilsen employed a full-time maintenance position who had inconclusive documentation to support the wages paid.

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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.

*Time Away on Agency Business:* Thirty-one percent of the cases sampled (five 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% of all Pilsen expenditures. In 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. 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.

- 6. 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. Recover reimbursement for any personal use of cellular phones.**

**Original 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 the situation we will return the funds to the State.

**Updated Response:** Fully implemented. Cellular phone bills are reviewed monthly. Pilsen's insurance company has been contacted concerning claims for improper/dishonest actions of former employees, including the unauthorized use of a business cell phone.

**DHS Assessment:** Fully implemented.

**Findings:** Questionable cellular phone charges totaling \$8,232 in FY97-98 were not adequately reviewed by the Pilsen fiscal process. An examination of cellular phone bills indicated 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 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.



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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.

**7. Ensure that adequate documentation exists for business expenses reimbursed to employees.**

**Original 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.

**Updated Response:** Fully implemented. Pilsen's policy concerning the required documentation of business expenses is strictly enforced.

**DHS Assessment:** Fully implemented.

**Findings:** Pilsen's CEO was reimbursed \$26,632.14 for 690 business expenditures. 119 food and beverage purchases totaling \$6,045.30 lacked both a date and time for the purchases. During FY97-98, 25% (68 of 271) of food and beverage purchases totaling \$3,302.13 were charged as Office Expense and 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 \$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. The auditors could find no evidence that Pilsen had reported usage of the van in tax year 1997 as additional income for the CEO, as required by the Internal Revenue Service.

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. 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. During the audit period, the CEO was reimbursed for 19 purchases. Fifteen of the 19 purchases (79%) totaling \$1,442.59 included sales tax, despite Pilsen's tax-exempt status. In addition to paying an unnecessary

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tax, the CEO failed to submit documentation as to the reason for the purchases or how materials were to be used.

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.

- 8. Require complete documentation of expenditures 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. Do not make checks payable to employees for the purpose of cashing and paying vendors directly. Do not loan money to employees over an extended period of time.**

**Original Response:** Pilsen management will take the necessary steps to follow the recommendations set forth. In addition, management will comply with current agency Financial Procedures Manual guidelines.

**Updated Response:** All of the recommendations are fully implemented. The DHS survey of June 2, 2000 found this recommendation to be fully implemented. In addition, Pilsen management filed suit seeking relief for: (a) unapproved bonus for \$17,500; (b) unapproved interest-free loan of \$15,000; (c) undocumented expenditure of Pilsen's funds; (d) use of Pilsen's employees for personal gain; and (e) undisclosed related party transactions. The matter is pending in the Cook County Circuit Court.

**DHS Assessment:** The recommendations have been fully implemented.

**Findings:** The auditors found numerous checks written directly to employees and not to the vendors with whom the employees were conducting business. 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, the auditors found 20 checks totaling \$6,044.14 in FY97, and 16 checks in FY98 totaling \$6,488.00 (for a 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.

Additionally, Pilsen issued the CEO a \$15,000 interest free loan in December 1996 that was processed as a pay advanced, with the check issued by their external payroll company. Documentation 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 it would be paid back by the end of the fiscal year. Pilsen could not provide

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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 included no indication of an approval for the bonus.

**9. Take the necessary steps to ensure that donations are not paid with State funds.**

**Original Response:** Pilsen management accepts this recommendation and will try to secure other unrestricted resources for any future donations.

**Updated Response:** Fully implemented. All donations are reviewed and recorded, and budget allocations are made from unrestricted revenues.

**DHS Assessment:** Fully implemented. Pilsen has instituted a policy whereby donations are to be made with unrestricted funds.

**Findings:** Pilsen donated \$1,850 to various organizations during FY97 and FY98. In FY97, three donation checks totaling \$650, and three checks in FY98 totaling \$1,200 were examined. 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. Pilsen's method of commingling funds and paying all six of these donations from the general account make tracing the source of revenue impossible.

**10. Comply with State requirements regarding the charging of individual and group memberships to State programs.**

**Original Response:** Pilsen management will comply fully with this recommendation and will work with the Illinois Alcoholism and Drug Dependence Association (IADDA) to renegotiate the membership dues. IADDA plays an important role as an advocate for substance abuse services.

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**Updated Response:** Fully implemented. Budget allocations for membership dues are made using unrestricted funds in accordance with State rules and regulations.

**DHS Assessment:** Fully implemented. Pilsen has instituted a policy whereby all dues are to be made with unrestricted funds.

**Findings:** An individual membership was inappropriately charged as an indirect expense to all programs, including State-funded programs, during FY97 and FY98. State rules prohibit the reimbursement of individual dues or membership (59 Ill. Adm. Code 103.110 (b)(4) and 77 Ill. Adm. Code 2030.360(a)). The cost of the membership over the 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. The cost of membership in the Illinois Alcoholism and Drug Dependence Association (IADDA) is allowable provided: "the benefit from the membership is related to the funded program; the expenditure is for the 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 \$1,000 of the Department award, whichever is less** (emphasis added). The sampled expenditure, \$1,053.50 related to dues for one of three 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.

**11. Implement a plan to better document travel expenses. Administrators and staff should take necessary steps to fully understand and follow the State and federal restrictions placed on travel reimbursement expenditures.**

**Original 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.

**Updated Response:** Fully implemented.

**DHS Assessment:** Fully implemented. Pilsen's policy in this regard seems adequate. However, our testing of March and April 2000 transactions did not reveal any travel beyond the 250-mile limit which would trigger special authorization.

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

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- No verification of CPO attendance at a class on client's rights. Documentation to support the expenditure was only accompanied by a blank application form.
- An employee's attendance and expenses for a four-day conference in Washington, D.C. lacked documentation on the necessity of the trip, activities presented at the conference, or the necessity of the conference to the program. In addition, there was 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 six 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 a 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 10 through June 13, 1998. DHS rules require 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.

**12. Take necessary steps to fully understand and follow State and federal restrictions placed on utilizing public funds for fines and penalties.**

**Original 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.

**Updated Response:** Fully implemented.

**DHS Assessment:** Fully implemented. Pilsen has instituted a policy which prohibits the payment of fines and penalties from public funds.

**Findings:** In FY97 and FY98, six Pilsen expenditures were written for, or contained, fines and penalties. Examples of questionable penalty payments include:

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- A dumping violation issued by the City of Chicago on a leased property for \$300. 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 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 program.
- Parking violations paid to the City of Chicago totaling \$40 were charged to State-funded programs as direct expenses.

**13. Schedule and complete a full inventory of property and equipment and maintain sufficient and adequate property records.**

**Original 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.

**Updated Response:** Fully implemented. Pilsen management has completed a property inventory.

**DHS Assessment:** Partially implemented. Pilsen completed a property inventory in March 2000. However, its property list omits such relevant information as the item's identification number, cost, date of purchase and funding source.

**Findings:** 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.

Pilsen assets totaled over \$1.9 million in both fiscal years audited. 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. No evidence could be found on the disposition of some older computers once

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an upgraded machine was purchased. Property tags for inventory items were used by only one program within the agency.

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. Information concerning the source of funds used to purchase the assets is necessary to determine whether depreciation is allowable.

**14. Only allocate direct costs to State-funded programs that actually receive benefit from the expenditure. In addition, management should ensure that non-client entertainment is not allocated to State-funded programs.**

**Original Response:** Pilsen management accepts this recommendation and will work with a CPA consultant to properly allocate funds.

**Updated Response:** Fully implemented. Additionally, Pilsen requires staff reimbursement of any non-client entertainment expenses.

**DHS Assessment:** Fully implemented. However, the transactions which we tested for the months of March and April 2000 did not include any non-client expenditures.

**Findings:** Federal and State regulations require an expenditure to be adequately documented to be an allowable cost. The auditors 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 five of nine cases, the expenditure/service benefited the administration cost center but a portion was directly charged to a State-funded program that operates from the first 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.

Five payments totaling \$4,063.50 for a staff party were charged as 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. A non-client expenditure for their annual Pilsen Thanksgiving party was paid for with donated funds and therefore not questioned by the auditors.

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- 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.**

**Original 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.

**Updated Response:** Fully implemented. At its September 1999 Board meeting, the Board of Directors approved terminating the lease with the Alliance for the Development of Latino Communities, Inc. concerning the 4115 W/ 26th Street property, and other certain real properties. The lease, however, has not yet been cancelled and is pending the locating of alternative special accommodations and the success of the lawsuit to recover lease payments and insulate Pilsen from contract liability.

The Board of Directors has cancelled certain leases and intends to review all leases so as to ensure compliance with the laws and regulations of the State of Illinois.

**DHS Assessment:** Partially implemented. Pilsen's audited financial statements for FY99 include the proper related-party disclosures. Pilsen has attempted to cancel all leases with the Alliance for the Development of Latino Communities but still had one in effect at the time of our visit.

**Findings:** The auditors 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. 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 FY96, Pilsen leased seven of the 10 properties they used from the Alliance. As of June 30, 1998, Pilsen leased one building from the Alliance.

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 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 (CEO) conducts business on behalf of the Alliance. When questioned by auditors, the CEO stated he provides property management services free of



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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.

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.

**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.**

**Original Response:** The agency's Board of Directors fully accepts these recommendations, and we will work diligently with agency administrative staff to comply with all State mandates and regulations.

**Updated Response:** Fully implemented. The Board of Directors, at its September 9, 1999 Board meeting, approved terminating the lease with the Alliance for the Development of Latino Communities, Inc. concerning the 4115 W. 26th Street property, and other certain real properties. The lease, however, has not yet been cancelled and is pending the locating of alternative special accommodations and the success of the lawsuit to recover lease payments and insulate Pilsen from contract liability.

The Board of Directors has cancelled certain leases and intends to review all leases so as to ensure compliance with the laws and regulations of the State of Illinois.

**DHS Assessment:** Partially implemented. Pilsen's Board of Directors has amended the organization's By-Laws to reduce the maximum membership from 15 to 11. It has recently recruited three additional members, bringing current membership to nine. As evidenced by this report, the organization has made substantial progress in implementing previously-recommended corrective actions.\

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**Findings:** The findings contained in this audit indicate 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.

**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 of Human Services 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 FY96. OCA will visit Pilsen again in Fiscal Year 2000. This visit was originally planned for FY99, however, it was delayed until the Auditor General's audit could be completed.

**DHS Follow-up:**

**Department of Public Aid 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, approximately \$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.

**Department of Children and Family Services Response:** Our ongoing 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.

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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.

**Updated Pilsen Response:** Not applicable.

**Findings:** Pilsen received 91% of its grant funding from the State in FY98. 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 the Office of the Auditor General was directed to, pursuant to House Resolution Number 385. Given the questioned costs, fiscal deficiencies and certain management practices outlined in the findings, the State agencies that provide funding to Pilsen should follow up on the findings and seek recovery of any inappropriately expended State funds.