



STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AUDIT

**ILLINOIS INTERNATIONAL
PORT DISTRICT**

JULY 2013

WILLIAM G. HOLLAND

AUDITOR GENERAL

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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

This is our report of the Management Audit of the Illinois International Port District.

The audit was conducted pursuant to House Resolution Number 1088, which was adopted May 31, 2012. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

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

A handwritten signature in black ink, appearing to read "William G. Holland".

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
July 2013



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS INTERNATIONAL PORT DISTRICT

MANAGEMENT AUDIT

Release Date: July 2013

SYNOPSIS

The Illinois International Port District (District) was created by the Illinois International Port District Act (70 ILCS 1810) as a political subdivision, body politic and municipal corporation. The District is located on the south side of the city of Chicago and encompasses approximately 1,500 acres. The District operates as a lessor of facilities primarily for maritime operations, which include storage facilities, dockage, and wharfage. Our review found pervasive management problems at the District including:

Board Management

- The Board had not developed and approved a long-term strategic plan for the development of the District.
- Three committees established in the Board by-laws did not meet during 2010 or 2011.
- The District could not provide written agreements for Board appointees for 2010-2011.

Financial Management

- The District's operating losses for 2010-2011 totaled over \$1.2 million (\$965,702 loss in 2010 and \$250,770 loss in 2011). In addition we found that the District:
 - Had not established thresholds at which expenses should be competitively bid;
 - Did not have up-to-date policies regarding the approval of expenses;
 - Did not adequately segregate financial and banking duties; and
 - Did not require employees or Board members to contribute toward the cost of their insurance or pension.

Port Management

- The District did not have written leases with all tenants (5 of 25);
- The District had not kept leases up-to-date in some cases to reflect current arrangements (2 of 25);
- The District did not monitor leases to ensure compliance with terms, did not have information regarding subleases, and did not have controls in place to monitor the collection of fees.

Personnel Management

- The District's Personnel Manual and job descriptions were outdated;
- Personnel files lacked complete information;
- The District did not have a formal timekeeping system;
- The District made annual vacation payouts to the Executive Director. This amounted to \$50,828 and \$44,871 for 2010 and 2011 respectively; and
- The District's pension plan as of 2011 was only funded at 30.52 percent.

Golf Course Management

- In 2010 and 2011, Harborside reported operating losses of \$844,386 and \$964,225 respectively. The District signed an agreement with KS Harborside, LLC to manage Harborside Golf Center effective January 2013.

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FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

BACKGROUND

The Illinois International Port District (District) was created by the Illinois International Port District Act (70 ILCS 1810) as a political subdivision, body politic and municipal corporation. The District is located on the south side of the city of Chicago and encompasses approximately 1,500 acres. The District operates as a lessor of facilities primarily for maritime operations, which include storage facilities, dockage, and wharfage. The District also has a golf facility (Harborside International Golf Center). (pages 6-15)

BOARD MANAGEMENT

The Board had not developed and approved a long-term strategic plan for the development of the District.

The Illinois International Port District Act establishes a nine member Board as the governing and administrative body of the Illinois International Port District. We reviewed the Board's management of the District and found that **the Board had not developed and approved a long-term strategic plan for the development of the District.** Although the Board commissioned a strategic study in 2012, the study only provides options to the Board and does not constitute a plan. The Illinois International Port District Act requires the District to adopt a comprehensive plan for the development of the port facilities. **The comprehensive plan provided by the District has not been updated since 1984.**

Three committees established in the Board by-laws did not meet during the two-year period (2010-2011).

Although the Board was holding monthly meetings as is required by law, **three committees established in the Board by-laws did not meet during the two-year period (2010-2011). These committees were the Economic Development Committee, Marketing Committee, and Legislation Committee.** We also reviewed the information provided to Board members at meetings and found that **financial information provided to members did not include District payroll information, electronic fund transfers (EFTs), or bank statements** which limited the Board's oversight of financial activities of the District.

The Board has appointed consultants that assist it in its duties including a legal counsel, a Board Secretary, an engineer, and a Treasurer. **The District could not provide signed contracts or agreements with these consultants for the audit period (2010 - 2011) showing the scope of services, duties to be performed, or the rate(s) of compensation.**

Total expenses during the two-year audit period for the primary consultants to the Board including legal counsel (\$528,844), engineer (\$814,740), Treasurer (\$50,000), and Secretary (\$50,000) totaled more than \$1.4 million. The District also paid the Treasurer's consulting firm an additional \$70,000 during the two-year period.

We reviewed the organizational structure of the District and found that because of the off-site locations of consultants,

District records were not in one central location and were not always easily attainable. During the audit we also encountered several instances in which District staff could not locate information and had to contact a consultant to obtain the information requested. (pages 17-28)

FINANCIAL MANAGEMENT

The District's operating losses for 2010-2011 totaled over \$1.2 million (\$965,702 loss in 2010 and \$250,770 loss in 2011).

For the five-year period 2007-2011, the District had an operating loss for four of the five years. The District's operating losses for 2010-2011 totaled over \$1.2 million (\$965,702 loss in 2010 and \$250,770 loss in 2011).

The District also faced several financial challenges including:

- Declining golf revenues;
- Declining account balances;
- A significantly underfunded non-contributory pension plan. The District's pension plan as of 2011 was only funded at 30.52 percent;
- A \$14,968,090 loan payable to the State of Illinois which the District has not made a payment on since the agreement was executed in 1980; and
- \$15,000,000 in Variable Rate Revenue Refunding Bonds, Series 2003 with escalating payment provisions through 2033.

The Illinois International Port District has established an annual budgeting process and tracks income and expenses on a monthly basis. However, our review of the District's financial management found that the District:

- Had not established thresholds at which expenses should be competitively bid and did not have contracts and agreements with vendors;
- Did not have up-to-date policies regarding the approval of expenses;
- Did not adequately segregate financial and banking duties;
- Had not established a property control system that included tagging or tracking real property; and
- Did not use fleet cards for employees with take home vehicles and did not require mileage logs to be submitted by employees assigned a vehicle.

The District is required to prepare a complete and detailed report and financial statement of its operations and of its assets and liabilities annually (70 ILCS 1810/22). According to the Board's Treasurer, because the Board was trying to determine if it wanted to change the basis of accounting, the District was unable to provide a copy of its 2010 audited financial statements to the Capital Development Board as is required by a loan agreement with the State of Illinois. In 1980, CDB

The District was unable to provide a copy of its 2010 audited financial statements to the Capital Development Board as is required by a loan agreement with the State of Illinois.

provided a \$14,968,090 loan to the District. Under the terms of the agreement, the District is to repay the funds received by remitting not more than 20 percent of the gross receipts and limited to not less than 20 percent of net profits attributable to Iroquois Landing operations. According to the District's 2011 audit's notes, no payments have been made through December 31, 2011, because Iroquois Landing has not achieved a net profit to date.

The 2010 audited financial statements for the District were issued with the 2011 statements. In addition, the District's audited financial statement for 2010 and 2011 did not contain:

- Notes regarding assets located in sinking fund(s); or
- A schedule showing an analysis of Iroquois Landing's profitability.

The District should also consider changing its basis of accounting for financial statements to GAAP.

The District should also consider changing its basis of accounting for financial statements to GAAP (Generally Accepted Accounting Principles) as is required by a bank reimbursement agreement between the District and U.S. Bank related to the 2003 issuance of \$15 million in bonds.

In our review of employee benefits we found that the District does not require employees or Board members to contribute toward the cost of their insurance or their pension plan.

In our review of a telecommunications expense we found that the District paid for 65 lines in August 2011 and concluded that the District should reassess its telecommunications needs. The District provided documentation to show that in January 2013, 53 lines were transferred to the new contractor responsible for managing Harborside Golf Center. (pages 29-55)

The Illinois International Port District operates as a "landlord" and as such leases land, buildings, and docks to private operators.

PORT MANAGEMENT

The Illinois International Port District operates as a "landlord" and as such leases land, buildings, and docks to private operators. We reviewed lease information for primary tenants of the District as of August 2012. From our review we concluded that the District:

The District did not have written leases with all tenants (5 of 25).

- Did not have written leases with all tenants (5 of 25);
- Has not kept leases up-to-date in some cases to reflect current arrangements (2 of 25);
- Allowed lease agreements to expire but continue in holdover without renegotiating the terms of the leases, in some cases for several years;
- Did not monitor leases to ensure compliance with terms;
- Did not have information regarding subleases;
- Did not date stamp rent payments and receipts when received; and
- Did not have controls in place to monitor the

collection of fees including receiving tonnage reports and conducting record reviews of tenants.

The District had few written policies and procedures, and those that did exist needed updating.

The District had few written policies and procedures, and those that did exist needed updating. The District's policies that govern the use of port facilities and services, including the rates charged for dockage and wharfage, have not been updated in 30 years (April 1983). In addition, other critical areas of operations including leasing and contracting did not have written policies. (pages 57-68)

PERSONNEL MANAGEMENT

As of August 2012, the Illinois International Port District had a total of seven employees. The seven employees included an Executive Director, Executive Assistant, Administrative Assistant, Maintenance Supervisor, Maintenance Director, and two Golf Professionals. All seven were full-time employees. As of August 2012, these employees had a combined salary of \$722,400. The District's 2010-2011 financial statements showed that staff salaries, and benefits for District staff and board members, totaled \$1,407,029 for 2011 and \$1,519,104 for 2010.

In our review of personnel management at the District we found that:

Personnel files lacked complete information.

- The District's Personnel Manual and job descriptions were outdated;
- Personnel files lacked complete information including applications for employment, current employee salaries, and annual performance evaluations;
- Job descriptions did not exist for some positions;
- The District did not have a formal timekeeping system; and
- **Although his employment contract only provided for payment of accrued vacation days at the conclusion of the agreement, we found that the Executive Director was compensated for 68 vacation days in 2010 and 58 vacation days in 2011. According to information provided by the District's Treasurer, this amounted to \$50,828 and \$44,871 for 2010 and 2011 respectively, in payments in addition to his annual salary. The Executive Director's salary effective January 1, 2011, was \$201,144.72.** (pages 69-73)

GOLF COURSE MANAGEMENT

Harborside is a 458-acre golf facility with two 18-hole golf courses. Harborside also has a practice facility, a golf academy, and a clubhouse with a restaurant. Harborside

In 2010 and 2011, Harborside reported operating losses of \$844,386 and \$964,225 respectively.

opened for use in 1995.

Harborside International Golf Center has had net losses each year for the past five years (2007-2011). In 2010 and 2011, Harborside reported operating losses of \$844,386 and \$964,225, respectively.

For the two-year audit period (2010-2011), all personnel for golf course operations and maintenance, with the exception of two golf pros, were provided by a contractor (ServiScape). The District paid this contractor \$2,266,398 in 2010 and \$2,346,657 in 2011. For the two-year period, 83 percent of the payments made to reimburse the contractor were for maintenance costs while 17 percent were for operational costs.

We reviewed two expenditures paid to this contractor, one from 2010 for \$171,409 and one from 2011 for \$138,996. Although the District was able to provide supporting documentation for most costs, the documentation for the two expenditures contained:

- A lack of detail for some expenses (for example while a cash register receipt was provided for a \$1,025 Home Depot purchase, the receipt had no detail of what was purchased);
- Reimbursement to the contractor for questionable expenses including a 401(K) administrative fee for \$313, 401(K) matches for two employees of the contractor for \$386, cell phones for \$128, and items charged to a credit card; and
- A \$1,103 charge for “office support” without any supporting documentation.

In addition, for both expenditures tested we could not find evidence of preapproval of large equipment purchases charged to the District. For instance, the 2010 expenditure we sampled that totaled \$171,409 included a \$79,381 charge for three mowers. The 2011 expenditure we sampled that totaled \$138,996 included a \$39,362 charge for an excavator.

The purchasing policies provided by the District require that no agreements, contracts, purchase orders or other obligations involving the expenditure of District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until prices for the items or services are obtained from at least three different suppliers or contractors. The expenditures tested contained no evidence of bids for the equipment purchased. In addition, the contract with ServiScape states that “Upon written request from the Port District’s Executive Director, ServiScape shall, subject to the rights of reimbursement pursuant to section 1.11, purchase for the Port District such equipment and materials customarily utilized in the maintenance and operation of golf course facilities.” While the purchases in the expenditures we reviewed may have been allowable under the terms of the contract, auditors were provided with no evidence to show that

the District determined they were necessary or gave prior approval of the purchases. The District signed an agreement with KS Harborside, LLC to manage Harborside Golf Center effective January 2013.

The restaurant at Harborside was also operated by a contractor. We reviewed the contract and payments and found that the contractor was not filing monthly reports and making payments to the District on a monthly basis as was required by the contract. The District collected revenues in 2010 and 2011 of \$213,577 and \$173,784 respectively, for the restaurant. (pages 75-82)

RECOMMENDATIONS

The audit report contains a total of 26 recommendations to the Illinois International Port District. Appendix C to the audit report contains the agency responses.



WILLIAM G. HOLLAND
Auditor General

WGH:MSP

AUDITORS ASSIGNED: This Management Audit was performed by the Office of the Auditor General's staff.

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Chapter One

INTRODUCTION AND BACKGROUND

REPORT CONCLUSIONS

In 1951, the General Assembly created the Chicago Regional Port District to oversee harbor and port development. In 1985, the Illinois International Port District (District) was created by the Illinois International Port District Act (70 ILCS 1810) as a political subdivision, body politic and municipal corporation. The District is located on the south side of the city of Chicago and encompasses approximately 1,500 acres. The District operates as a lessor of facilities primarily for maritime operations, which include storage facilities, dockage, and wharfage. The District also operated a golf facility (Harborside International Golf Center).

Board Management

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The Board has appointed consultants that assist them in their duties including a legal counsel, a Board Secretary, an engineer, and a Treasurer. **The District could not provide signed contracts or agreements with these consultants for the audit period (2010 - 2011) showing the scope of services, duties to be performed, or the rate(s) of compensation.** Consequently, we could not determine how their rates of pay were set or the scope of services to be provided. Total expenses during the two-year audit period for the primary consultants to the Board including legal counsel (\$528,844), engineer (\$814,740), Treasurer (\$50,000), and Secretary (\$50,000) totaled more than \$1.4 million. The District also paid the Treasurer's consulting firm an additional \$70,000 during the two-year period.

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In our review of employee benefits we found that the District does not require employees to contribute toward the cost of their insurance or their pension plan. The District was also paying for health insurance for a previous Board member 22 months after the member left the Board and had purchased life insurance which covered one of the consultants to the Board (the Treasurer). Although the District provided documentation of reimbursement of the health insurance for the previous Board member for the month reviewed, we could not determine whether the District was properly reimbursed by this individual for the total cost of health insurance for 2011. We requested information to show that this individual reimbursed the District for all costs associated with his coverage for 2011. However, the District did not provide documentation.

In our review of a telecommunications expense we found that the District paid for 65 lines in August 2011 and should reassess its telecommunications needs. The District provided documentation to show that in January 2013, 53 lines were transferred to the new contractor responsible for managing Harborside Golf Center.

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We reviewed two expenditures paid to this contractor, one from 2010 for \$171,409 and one from 2011 for \$138,996. Although the District was able to provide supporting documentation for most costs, the documentation for the two expenditures contained:

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In addition, for both expenditures tested we could not find evidence of preapproval of large equipment purchases charged to the District. For instance, the 2010 expenditure totaling \$171,409 included a \$79,381 charge for three mowers. The 2011 expenditure totaling \$138,996 included a \$39,362 charge for an excavator.

The purchasing policies provided by the District require that no agreements, contracts, purchase orders or other obligations involving the expenditure of Port District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until

prices for the items or services are obtained from at least three different suppliers or contractors. The expenditures tested contained no evidence of bids for the equipment purchased. In addition, the contract with ServiScape states that “Upon written request from the Port District’s Executive Director, ServiScape shall, subject to the rights of reimbursement pursuant to section 1.11, purchase for the Port District such equipment and materials customarily utilized in the maintenance and operation of golf course facilities.” While the purchases in the expenditures we reviewed may have been allowable under the terms of the contract, auditors were provided with no evidence to show that the district determined they were necessary or gave prior approval of the purchases. The District signed an agreement with KS Harborside, LLC to manage Harborside Golf Center effective January 2013.

The restaurant at Harborside was also operated by a contractor. We reviewed the contract and payments and found that the contractor was not filing monthly reports and making payments to the District on a monthly basis as was required by the contract. The District collected revenues in 2010 and 2011 of \$213,577 and \$173,784 respectively, for the restaurant.

INTRODUCTION

On May 31, 2012, the Illinois House of Representatives adopted House Resolution No. 1088 directing the Auditor General to conduct a management audit of the Illinois International Port District (District) (see Appendix A). The resolution asks the Auditor General to examine the operations and management of the District. Specific questions and issues to be addressed by the audit are contained in the Scope and Methodology section of this chapter.

BACKGROUND

Chicago has a long history as a center of commercial shipping. With the creation of the Illinois and Michigan Canal in 1848, creating an unbroken inland waterway from the Atlantic Ocean to the Gulf of Mexico, shipping in Chicago expanded. Port activities remained centered on the Chicago River until well into the 20th century. In 1909, the city's Harbor and Waterways Commission offered a plan to construct several piers, leading to the construction of Navy Pier. Four years later, in 1913, the General Assembly passed legislation enabling the city of Chicago to acquire, develop, and own and operate port facilities within the city limits.

The modern history of the Port of Chicago began in 1921, when the General Assembly passed the Lake Calumet Harbor Act authorizing the city to build a deep water port at Lake Calumet. Regularly scheduled overseas shipping service was established in 1935 and in 1941 the Chicago Plan Commission published an industrial development plan for the Lake Calumet area. Five years later, Congress authorized the Calumet-Sag Project to facilitate barge traffic between Lake Michigan and the Illinois and Mississippi Rivers.

In 1951, the General Assembly created the Chicago Regional Port District to oversee harbor and port development. A year later, the General Assembly established the District as an independent municipal corporation with title to approximately 1,500 acres of marshland at Lake Calumet. The port facility at Lake Calumet opened in 1958.

In 1972, Navy Pier officially ceased operations of commercial shipping. In 1978, the District acquired an additional 190 acres at the mouth of the Calumet River, built two new

terminal sheds and rechristened this site "Iroquois Landing," giving the District a second major waterfront site.

ILLINOIS INTERNATIONAL PORT DISTRICT ACT

On September 23, 1985, the Illinois International Port District Act (Act) (70 ILCS 1810) created a political subdivision, body politic and municipal corporation by the name of the Illinois International Port District embracing all the area within the corporate limits of the city of Chicago.

As stated in the Act, the District is responsible for performing all actions that “may tend to or be useful toward development and improvement of harbors, sea ports, and port-related facilities and services and to increase foreign and domestic commerce through the harbors and ports within the city of Chicago” (70 ILCS 1810/4(h)) (see Exhibit 1-1). The Act also requires the District to study, prepare and recommend by specific proposals to the General Assembly of Illinois changes in the jurisdiction of the Port District.

Port District Rights and Powers

The Illinois International Port District Act gives the District the power to acquire, own, construct, sell, lease, operate, and maintain port and harbor, water, and land terminal facilities, and to fix and collect just, reasonable and non-discriminatory charges, rentals or fees for the use of such facilities. The charges, rentals or fees collected shall be made available to defray the reasonable expenses of the Port District and to pay the principal of and interest on any revenue bonds issued by the District. The Act also states that the District may police its property and exercise police powers in respect to the enforcement of any rule or regulation provided by the ordinances of the District and employ and commission police officers and other qualified persons to enforce the same. Exhibit 1-1 summarizes the Port District rights and powers. The Act stipulates however, that the District shall not have power to levy taxes for any purpose whatsoever.

Exhibit 1-1 ILLINOIS INTERNATIONAL PORT DISTRICT ACT DISTRICT RESPONSIBILITIES
<ul style="list-style-type: none"> • Study the existing harbor plans and make recommendations. • Prepare and adopt a comprehensive plan for the port facilities. • Make recommendations for the improvement of port facilities. • Study, prepare and recommend by specific proposals to the General Assembly of Illinois changes in the jurisdiction of the Port District. • Petition any governmental agency having jurisdiction in the premises, for the adoption and execution of any physical improvement and/or change in method. • Promote the shipment of cargoes and commerce through ports. • Acquire, construct, own, lease and develop terminals, warehouses, grain elevators, and any other port facility or port-related facility. • Perform any other act or function that may be useful toward development and improvement of port-related facilities.
Source: 70 ILCS 1810/4.

In April of 1994, the Act was amended to include recreational facilities within the scope of the District's statutory authority (Public Act 88-539). The amended statute expanded the definition of "port facilities" to include "*all lands, buildings, structures, improvements, equipment, and appliances located on District property that are used for industrial, manufacturing, commercial, or recreational purposes.*" (70 ILCS 1810/2) (emphasis added)

The Act was also amended to expand the scope of District operations to include those for recreational purposes. The Act states that, "*In preparing and recommending changes and modifications in existing harbor plans, or a comprehensive plan for the development of said port facilities, as above provided, the District may if it deems desirable set aside and allocate an area, or areas, within the lands held by it, to be used and operated by the District or leased to private parties for industrial, manufacturing, commercial, recreational, or harbor purposes....*" (70 ILCS 1810/4(b)) (emphasis added)

ILLINOIS INTERNATIONAL PORT DISTRICT

The Illinois International Port District is located on the south side of the city of Chicago and encompasses approximately 1,500 acres. The District's administrative offices are located at 3600 E. 95th Street. Exhibit 1-2 is a map of the District.

District Mission

According to the District's website (<http://www.iipd.com>), "The Illinois International Port District is committed to developing and maintaining a world-class port that operates as a modern, strategically driven facility. The Illinois International Port District is focused on generating and expanding economic activity and employment for the benefit of the city of Chicago and State of Illinois. The Illinois International Port District is committed to doing so in an environmentally responsible way and improving awareness, understanding and engagement with the surrounding communities and other government agencies."

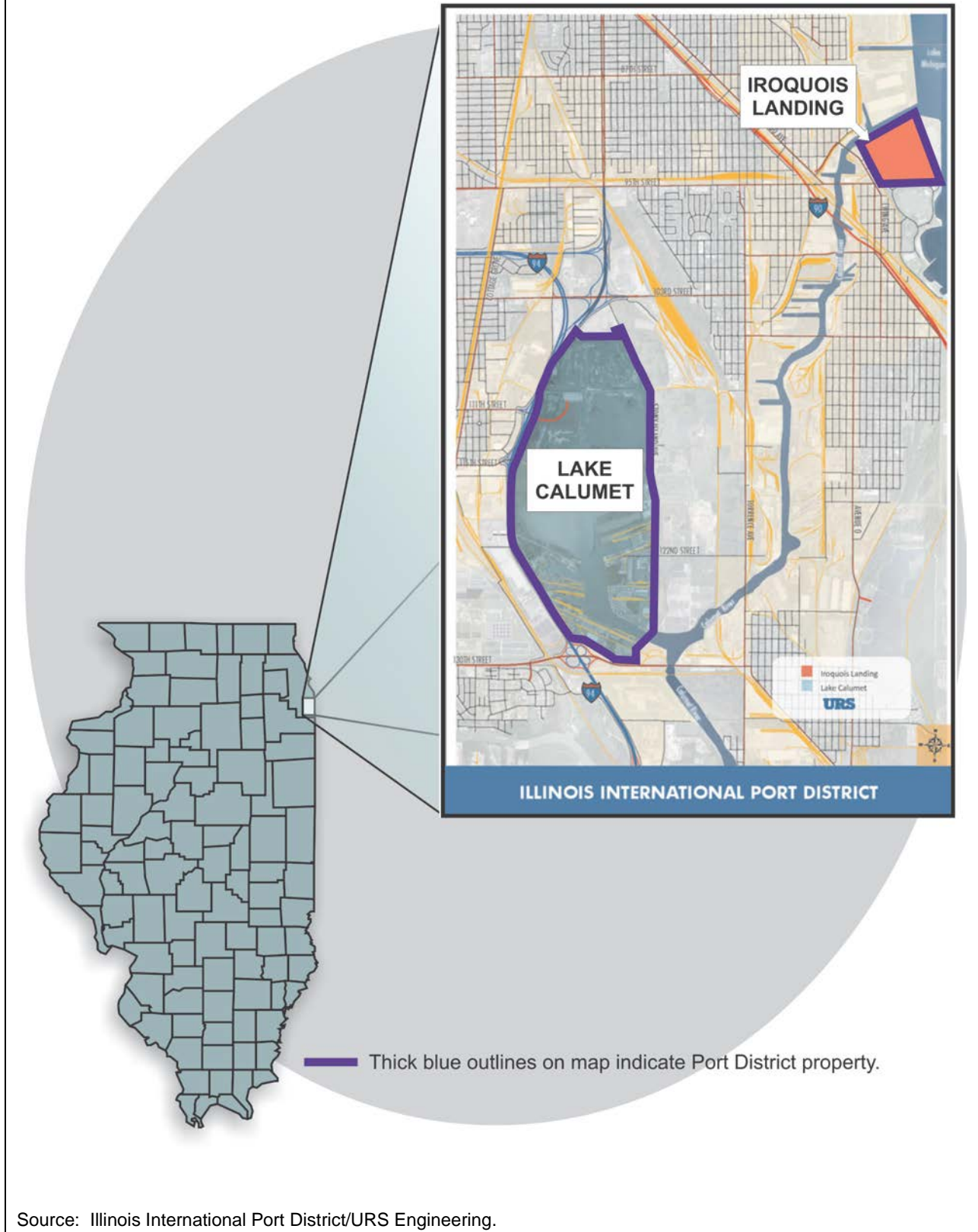
Facilities and Operations

The District operates as a lessor of facilities primarily for maritime operations, which include storage facilities, dockage, and wharfage. The District also operates a golf facility (Harborside International Golf Center).

Major District operations include:

- **Iroquois Landing Lakefront Terminus:** Iroquois Landing is located at the mouth of the Calumet River in the southwest corner of Lake Michigan (see Exhibit 1-3). Currently, Iroquois Landing is 100 acres of warehouses and facilities on Lake Michigan. It includes an open paved terminal with 3,000 linear feet of ship and barge berthing space with a navigation depth of 27 feet. There are two 100,000 square foot transit sheds and one 30,000 square foot transit shed with direct truck and rail access. North America Stevedoring Company, LLC (NASCO) manages the operations at Iroquois Landing.
- **Senator Dan Dougherty Harbor (Lake Calumet):** Harbor operations and terminals are located at the junction point of the Grand Calumet and Little Calumet rivers, approximately six miles inland from Lake Michigan. The south quadrant of the harbor consists of four transit sheds totaling over 400,000 square feet adjacent to approximately 3,000 linear feet of ship and barge berthing space. The southwest quadrant of the harbor

Exhibit 1-2
MAP OF ILLINOIS INTERNATIONAL PORT DISTRICT



Source: Illinois International Port District/URS Engineering.

Exhibit 1-3
IROQUOIS LANDING



Source: Illinois International Port District/URS Engineering.

is home to two of the largest grain/storage facilities in Illinois with a capacity of approximately 14 million bushels. The southeast quadrant of the harbor is also home to a large tank storage farm with a capacity of approximately 800,000 liquid barrels.

- **Harborside International Golf Center:** Located to the north and adjacent to Lake Calumet and 16 minutes from the downtown loop area, Harborside is championship style links golf, open to the public. Harborside International offers two links style courses, Port and Starboard.
- **Foreign Trade Zone (FTZ) #22:** The Illinois International Port District also operates Foreign Trade Zone #22. A foreign-trade zone is a designated location in the United States where companies can use special procedures that help encourage U.S. activity by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings. All designated sites must be approved for FTZ status by the Foreign-Trade Zones Board, a division of the Department of Commerce. As Grantee of FTZ#22, the Illinois International Port District accepts applications for potential FTZ sites within Cook, Lake, McHenry, Kane, DeKalb, DuPage, Will, Kendall, and Grundy counties.

TONNAGE MOVED THROUGH THE PORT

When tonnage comes into the port, the District can provide several modes of transportation to move cargo including maritime, rail, and trucking. The port has terminal and rail switching services with 12 main line railroads in the Chicago rail hub that feed into selected terminals. Rail movement to and from the area by one carrier and service to the specific port terminal by another can be accommodated without extra switching charges for shippers or consignees. In addition, many truckers can provide overnight service from points throughout the Midwest. Approximately 600 line haul and local cartage carriers provide the full range of motor services.

2010-2011 Tonnage

According to information provided by the District, approximately 5 million net tons of cargo were moved through the port in 2011. This included cargo such as steel products, grain, cement, food grade oils, petroleum products, and sugar. Of the 5 million net tons moved, 62 percent of the cargo was moved solely by marine. In 2011, Kinder Morgan moved the most tonnage, 887,996 net tons, at the District, which is approximately 18 percent of the total tonnage moved through the port. Exhibit 1-4 shows the total tonnage moved through the Illinois International Port District by vendor for 2010- 2011 with a general description of the type of cargo.

Exhibit 1-4
**ILLINOIS INTERNATIONAL PORT DISTRICT TONNAGE
 2010-2011**

Vendors	2010	2011	Description
Arrow Terminals	98,486	172,367	Steel Package Products
Chicago Rail Link	765	11,570	PL480/Steel/Precious Metals
Chicago SS and SB RR	494,932	459,206	PL480/Steel/Precious Metals
Clean Harbors	18,899	8,000	Aquias Waste
Dockside Steel	149,856	161,279	Steel
Emesco	123,398	99,808	Steel
Kinder Morgan	792,255	887,996	Food Grade Oils/Petroleum Products/Steel/Precious Metals
Metal Management	150,965	156,679	Scrap Steel Processing
National Mat. (Cox)	76,673	71,015	Steel Processing
Nidera	570,540	526,251	Grain
Norfolk Southern RR	237,883	298,082	PL480/Steel/Precious Metals/Petroleum/Liquid Products
North America Stevedoring	252,180	591,007	Steel/Sand/Stone/Precious Metals/Pipe
Primary Steel (Metron)	394,256	427,475	Steel Processing
Reserve Marine	1,420	2,822	Sugar/Steel/Precious Metals
S.H. Bell Co.	20,526	58,367	Steel/Precious Metals
St. Mary's Cement	795,333	621,254	Cement
The Sweets Mix Co.	53,562	41,025	Sugar
Transfer Logistics	215,384	255,852	PL480/Grain
Windy City (Conley)	268,999	184,084	Precious Metals/PL480
Totals	4,716,312	5,034,139	

Note: PL480 is a food aid program (Food for Peace).

Source: OAG analysis of Illinois International Port District 2010 and 2011 Annual Tonnage Reports.

STRATEGIC AND CAPITAL NEEDS STUDY OF THE DISTRICT

In February 2012, the Board hired BMO Capital Markets, Acacia Financial Group, and Cabrera Capital Markets to conduct a Strategic and Capital Needs Study. Because the \$160,000 study included an analysis of the District's facilities and capital needs, our audit did not include an assessment of the condition of the District's infrastructure, facilities, or needed physical improvements. In June 2012, the Strategic and Capital Needs Study was issued. **The Study concluded that:**

The port's facilities today are in need of attention and investment. In particular, the District **should reconsider its marketing efforts and fund improvements to Iroquois Landing's dock wall, land creation/reconfiguration at Lake Calumet, and rail asset improvements at both sites.**

- The port’s facilities are currently barge-centric at present; however, sources suggested **the port could be made more attractive to freighter traffic through attention to cost, service and efficient operations.** The minimum depth of 27 feet should be maintained at port facilities (including Slip 2 in Lake Calumet’s East Side) and seeking additional funding for the deepening of the channel and berths would also add to the commercial attraction of the freighter community. Larger freighters are able to accommodate larger shipments.
- **The Harborside Golf facility has been a distraction and financial drag to the port’s mission of supporting industrial/maritime activities of its current and future tenants.** Shedding this direct responsibility would allow for the increased focus on industrial/maritime activities and opportunities.
- **The excessively long NASCO lease on Iroquois Landing undervalued the property and now effectively precludes the District from extracting value in any master lease scenario.** Should NASCO allow its unilateral option to expire, the adjacent property should be actively marketed.
- The **tenants** on both sides of the port’s facilities at Lake Calumet **would benefit greatly if they had access to multiple rail carriers.**
- **The port is lacking five-year and ten-year capital plans.** These plans should aggressively identify funding sources for capital investment. Should the District pursue private operation of the port in whole or part, a requirement of the master lessee should be to provide such long-range capital plans.
- The nature of District leases, which effectively put the onus for much of the maintenance and improvements on the tenants, has helped keep the port’s capital expenditures on industrial/maritime parcels to a minimum. However, this approach also impeded the District’s ability to function in a landlord port’s traditional role of developing and shaping lands to opportunistically meet changing market needs and to encourage individual tenants to invest in their leasehold facilities. **This lack of investment in the port’s maritime/industrial assets has resulted in fewer jobs, limited industrial business attraction and reduced regional trade than might otherwise be the case.**
- **The port’s industrial/maritime marketing – which could have been useful in creating interest in the port and competition for parcels on month-to-month leases – is almost non-existent.**
- **The port has several undervalued leases. Examples of leases discussed in the Study include:**

Kinder Morgan - A 177-acre portion of the District is leased to a single tenant, Kinder Morgan, who **sublets over half of its leased land, 11 parcels in sum, to six separate subtenants.** Kinder Morgan’s petrochemical operations are responsible for a substantial amount of barge activity at the port and the firm has invested in site improvements, including a sewer system and rail infrastructure. Given its 66-year lease, established in 1960 and **expiring in 2026**, is currently at its payment ceiling of \$75,000 annually, resetting these parcels to current market rates would provide substantial additional revenue to the port. The 177-acre parcel originally leased was assigned to Kinder

Morgan in 2001. The annual lease rate started at \$10,000 per year with a cap of \$75,000 per year, which was reached in 1995 (and is where it currently stands). By comparison, conversations with industrial real estate professionals suggested a basic 100,000 square foot warehouse on this site could be expected on its own to lease for \$200,000 per year. With adequate land to develop numerous more such warehouses, BMO believes **this parcel is dramatically undervalued** currently. Officials at Kinder Morgan agreed that the lease rate is substantially under market and that significant increases are likely at the lease term, or before the lease expiration pursuant to a renegotiation. **Given the acknowledged undervaluation of this parcel, renegotiation that reflects the current market value of this 177-acre site is one of the single most valuable asset opportunities at the port.**

NASCO (North America Stevedoring Company) - Iroquois Landing is the District's property located six miles north of Lake Calumet where the Calumet River meets Lake Michigan. This site is marked by a 3,000-foot long dock wall on the river side, suitable for berthing lake freighters or barges. As with other port facilities, **this dock wall, built in 1910, is in disrepair and in need of investment.** North America Stevedoring Company (NASCO) is the only tenant at Iroquois Landing (aside from a small city of Chicago air rescue facility). NASCO has secured, with unilateral options, a lease on the portion closest to the river, **through 2076.** The firm also has an exclusive option to lease the 125 acres of undeveloped land immediately adjacent to and behind its leased warehouses. This option requires NASCO to submit plans for site improvement by October 2012. The exercise of this option would bring additional lease revenue and a new warehouse (or equivalent site improvement) to an undeveloped portion on Iroquois Landing. However, **the lease rate, established in 2005 (escalated at the Consumer Price Index), is not in accordance with the potential that this site might hold** in the context of a comprehensive, long-term site plan (based on estimates drawn from conversations with industrial real estate professionals and local market data).

Dockside Development/Emesco - Emesco is a steel company operating a small berth and "lay-down" operation. Emesco's lease **expires in 2030** and it pays \$30,000 annually, inclusive of lease payments from a subtenant. Neither the lease nor sub-lease has escalating terms. **The port has ongoing litigation with this tenant over the cost to dredge the channel to a 27-foot depth at the berth. The parties agree that the terms of the lease require Emesco to do the work, estimated at approximately \$3 million, but Emesco maintains that such work is no longer needed** to accommodate ships that will never call at Lake Calumet in the future and that a barge depth of 9 feet is all that should be required. The Team believes there are opportunities to grow ship traffic at the port's Lake Calumet facilities and that maintaining the standard 27-foot depth at accessible piers is important for maintaining the port's future opportunities.

CIVIC FEDERATION REPORT

In 2008, the Civic Federation released a report calling for the Illinois International Port District to be abolished. The report concluded that the Illinois International Port District had shifted its primary focus from port operations to the management of a golf course. The Civic Federation's report called upon the Illinois General Assembly and Governor to dissolve the

District and recommended that the city of Chicago assume control of port operations because the city has a clear stake in turning the Port of Chicago into a more vibrant center of maritime commerce and regional economic and industrial development. By reassuming the control of port lands it gave up over fifty years ago, the city of Chicago could provide access to greater financial resources and professional staff that would benefit the port and its mission. After the District has been dissolved, the Civic Federation believes that open lands on District property would be better managed by the Forest Preserve District of Cook County and that the District's golf course should be managed by the Chicago Park District.

RECENT CHANGES AT THE DISTRICT

In December 2011, Michael Forde became the Chairman of the Illinois International Port District Board. In February 2012, the District commissioned a Strategic Needs Study with BMO Capital Markets. The study, which was issued in June 2012, is discussed previously in this chapter. Other changes initiated include:

- In December 2012, the District issued an RFP for investment management services related to its pension plan assets;
- In December 2012, the District issued an RFP for audit services including an option for preparing the District's financial statements on a GAAP basis as well as on a modified cash basis;
- Effective January 2013, the District signed an agreement with KemperSports to operate the golf facilities at Harborside International Golf Center;
- In January 2013, the District hired a Chief Financial Officer; and
- In February 2013, an RFI was issued for a Master Lease of the District.

AUDIT SCOPE AND METHODOLOGY

We conducted this audit in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although during the course of the audit we reviewed financial information, the purpose of the audit was not to conduct a financial or forensic audit of the District. As disclosed throughout this report, auditors identified pervasive deficiencies in internal controls including a lack of segregation of duties over financial reporting, property control, timekeeping, leases, and expenditures. Weak internal controls increase the likelihood that fraud and abuse may occur and go undetected.

The purpose of this audit is contained in House Resolution No. 1088 which directed the Auditor General to conduct a management audit of the Illinois International Port District (see Appendix A). The audit's objectives included determining:

- Whether the Board is adequately overseeing the operations of the District;
- Whether the District's operations are adequately managed;

- Whether the District's finances are adequately managed;
- Whether the District's personnel practices are appropriate;
- Whether the District's assets are being utilized and managed in the best interest of the District; and
- Whether the golf operations and restaurant operations are adequately managed.

An entrance conference was held and initial work began on the audit in August 2012 and fieldwork was concluded in March 2013. We met with officials from the District and conducted walkthroughs of the District's operations to identify key decision points, problem areas, and issue areas for audit testing. We also reviewed Board meeting minutes for the two-year period 2010-2011.

In conducting the audit, we reviewed applicable statutes, rules, and District policies and procedures. We reviewed compliance with those laws, rules, and policies to the extent necessary to meet the audit's objectives. Any instances of non-compliance we identified are noted as recommendations in this report.

We assessed risk by reviewing financial audits of the District and reviewing internal documents including policies and procedures. We reviewed management controls relating to the audit objectives. The audit reports any weaknesses identified in those controls and includes them as recommendations.

During the audit we experienced instances in which we did not obtain information in a timely manner. Responses to financial questions were not always timely provided. Only the Treasurer has full access to the accounting system of the District and that person is a part-time consultant which may have contributed to the problems of obtaining financial information and answers to financial questions in a timely manner. Another contributing factor is that the District's consultants, including the legal counsel, engineer, and Treasurer are located off-site and therefore, documents may be located off-site. In some cases, the Executive Director had to contact these consultants to obtain information that was requested by auditors during the audit.

We reviewed primary tenant leases and terms for requirements contained in the lease agreements between the District and the lessee. We reviewed lease files to assess compliance with the terms of the leases. We also reviewed a sample of 50 expenditures for 2010 and 2011.

REPORT ORGANIZATION

The remainder of this report is organized into the following chapters:

- **Chapter Two** discusses the Board and its management of the District;
- **Chapter Three** reviews the financial management of the District;
- **Chapter Four** discusses the management of the port including the management of leases;
- **Chapter Five** reviews personnel management at the District; and
- **Chapter Six** discusses the management of Harborside Golf Center.

Chapter Two

BOARD MANAGEMENT

CHAPTER CONCLUSIONS

We reviewed the Board's management of the District and found that **the Board had not developed and approved a long-term strategic plan for the development of the District.** Although the Board commissioned a strategic study in 2012, the study only provides options to the Board and does not constitute a plan. The Illinois International Port District Act requires the District to adopt a comprehensive plan for the development of the port facilities. **The comprehensive plan provided by the District has not been updated since 1984.**

Although the Board was holding monthly meetings as is required by law, **three committees established in the Board by-laws did not meet during the two-year period (2010-2011). These committees were the Economic Development Committee, Marketing Committee, and Legislation Committee.** We also reviewed the information provided to Board members at meetings and found that **financial information provided to members does not include District payroll information, electronic fund transfers (EFTs), or bank statements which limits the Board's oversight of financial activities of the District.**

The Board has appointed consultants that assist them in their duties including a legal counsel, a Board Secretary, an engineer, and a Treasurer. **The District could not provide signed contracts or agreements with these consultants for the audit period (2010 - 2011) showing the scope of services, duties to be performed, or the rate(s) of compensation.** Consequently, we could not determine how their rates of pay were set or the scope of services to be provided. Total expenses during the two-year audit period for the primary consultants to the Board including legal counsel (\$528,844), engineer (\$814,740), Treasurer (\$50,000), and secretary (\$50,000) totaled more than \$1.4 million. The District also paid the Treasurer's consulting firm an additional \$70,000 during the two-year period.

The Illinois International Port District Act establishes a nine member Board as the governing and administrative body of the Illinois International Port District. We reviewed the organizational structure of the District and found that because of the off-site locations of consultants, District records were not in one central location and were not always easily attainable. During the audit we also encountered several instances in which District staff could not locate information and had to contact a consultant to obtain the information requested.

ILLINOIS INTERNATIONAL PORT DISTRICT BOARD

The Illinois International Port District Act establishes a nine member Board (70 ILCS 1810/12). The Board is composed of:

- Five members appointed by the Mayor of the city of Chicago with the advice and consent of the city council; and
- Four members appointed by the Governor with the advice and consent of the Senate.

Appointments made by the Governor are subject to approval by the Mayor and appointments of the Mayor are subject to approval by the Governor. All members of the Board, except those appointed by the Governor, must reside within the corporate limits of the city of Chicago. Members are appointed to a five-year term and can receive compensation up to \$20,000 per year. The Board Chairman can receive an additional \$5,000 per year.

Board powers to govern the District include:

- Electing a Chairman from among the members to serve a three-year term;
- Appointing an Executive Director, a Secretary for the Board, a Treasurer, general attorney, and chief engineer for the District;
- Passing ordinances and making rules and regulations necessary to carry in effect the powers granted to the District; and
- Preparing, printing, and distributing a complete and detailed report and financial statement of its operations and of its assets and liabilities.

Board Members

As of July 2012, the Board had full membership with eight of the nine members from Cook County (see Exhibit 2-1). Seven of the nine members had been with the Board less than five years.

Exhibit 2-1 ILLINOIS INTERNATIONAL PORT DISTRICT BOARD MEMBERS as of July 2012					
Name	Initial Appointment	Term Expires	Appointed By	Position	County
Michael Forde	12/06/2011	06/01/2013	Mayor	Chair	Cook
Terrence Fitzmaurice	11/13/2007	06/01/2015	Mayor	Vice Chair	Cook
Daniel Alvarez	11/17/1999	06/01/2013	Mayor	Member	Cook
Charles Bowen	2/09/2005	06/01/2014	Mayor	Member	Cook
Henry Wisniewski	12/06/2011	06/01/2013	Mayor	Member	Cook
Victor Crivello	2/10/2012	06/01/2015	Governor	Member	Cook
Bethany Del Galdo	11/19/2010	06/01/2012	Governor	Member	DuPage
Dean Maragos	9/17/2007	06/01/2015	Governor	Member	Cook
Terrence Sullivan	10/07/2009	06/01/2014	Governor	Member	Cook

Source: Illinois International Port District and State of Illinois website.

ORGANIZATIONAL STRUCTURE

The Act requires that the Board appoint a Secretary and a Treasurer (70 ILCS 1810/17). The Act also gives the Board the power to hire consultants including an executive director,

general attorney, chief engineer, and other officers, attorneys, agents and employees (70 ILCS 1810/20).

According to information provided by the District, as of January 2011, the District had a total of seven staff with a payroll of \$702,027. The seven staff included an Executive Director, Executive Assistant, Administrative Assistant, Maintenance Supervisor, Maintenance Director, and two Golf Professionals. The District’s audited financial statements for 2011 showed staff salaries and benefits for District staff and board members, totaling \$1,407,029.



As is shown in the District’s organizational chart, many of the critical functions of the District were not done by staff that work full-time at the District but instead were done by consultants to the Board. These include the legal counsel, engineer, and the Treasurer. In addition, security staff are provided by a private security company and employees of the golf course are provided by another private company (see Exhibit 2-2).

We reviewed the organizational structure of the District. Consultants to the Board such as the engineer, legal counsel, and Treasurer also conduct business at different locations and have their own records pertaining to the District. Because of the off-site locations of consultants,

District records were not in one central location and were not always easily attainable. During the audit we encountered several instances in which District staff could not locate information and had to contact a consultant to obtain the information requested.

ORGANIZATIONAL STRUCTURE	
RECOMMENDATION 1	<i>The Board should examine the organizational structure of the District in order to determine whether changes should be made to clarify lines of responsibility and reporting.</i>
DISTRICT RESPONSE	<p>The Illinois International Port District operates pursuant to the Illinois International Port District Act, 70 ILCS 1810/1 <i>et seq.</i> The District is organizationally structured according to parameters outlined in its statute. As of January 1, 2013 the Board of Directors of the IIPD reorganized the structure of the District to reflect the current operations of the District. The Board continually examines all facets of the District’s operations and makes changes when appropriate. The Port District has undertaken an initiative to consider the reorganization of the District administration per the BMO Strategic Capital Needs Plan. This initiative is consistent with the fact that the Port District does not receive or spend any taxpayer money or public funds. It should also be noted that the Chairman has elected not to accept the additional \$5,000 authorized by the Act.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center;"><u>Auditor Comment #3</u></p> <p><i>The District’s assertion that its moneys are not “public funds” is inconsistent with its statutory creation. State law (70 ILCS 1810) created the District as a political subdivision, body politic and municipal corporation and set forth its powers and responsibilities. Board members are appointed by the Mayor of Chicago and Governor and approved by the Illinois State Senate. Furthermore, the District received and expended a \$14,968,090 loan from the Capital Development Board, a State agency whose funds are public. Finally, whether or not the District’s moneys are “public” does not obviate the Board’s responsibility to ensure that they are prudently and effectively utilized.</i></p> </div>

PLANNING

The Board has not developed and approved a long-term strategic plan for the development of the port. In addition, although the District’s website contains a mission statement, the Board has not developed specific written goals or objectives for the District.

The Illinois International Port District Act requires the District to adopt a comprehensive plan for the development of the port facilities. The District can also recommend changes and modifications to existing harbor plans or the comprehensive plan for the development of the port

facilities. This includes the authority to set aside and allocate an area, or areas, within the lands held by the District, to be used and operated by the District or leased to private parties for industrial, manufacturing, commercial, recreational, or harbor purposes (70 ILCS 1810/4 (b)). We requested a copy of the District’s Comprehensive plan. **The plan provided was dated 1984** and contained plans for the development of a golf course, a commercial shopping area, and a hotel.

A strategic needs study commissioned by the District was released in June 2012. The study recommended several options and changes to the District regarding lands and infrastructure. For instance, the study concluded that the demands of the maritime shipping and logistics industry have changed substantially since the District was planned and developed and these changes have rendered the current land configuration on Lake Calumet’s east side outdated and antiquated. Specifically, heavy industrial products, such as metals, bulk aggregates, scrap, etc., all require large lay-down and storage yards and warehouses. While some access to the water is needed, berth length is now of secondary importance to storage space. As such, the narrow Slips 4, 6 and 8 of the east side are potential sites for sealing and filling to create additional land for industrial use.

In addition, there is no marketing plan and the 2012 strategic study commissioned by the District described marketing of the port as “almost non-existent.” According to the District, there were only three properties available. These properties were 5.2 acres, 2 acres, and 31 acres. According to audited financial statements, the District’s expenses for marketing have declined from \$171,141 in 2007 to \$112,266 in 2011.

Other ports have realized that they are a vital asset that must be developed and have established strategic plans. For instance, the Port of Cleveland developed and prepared a Strategic Action Plan that was approved by its Board in September 2011. The plan included specific policies and actions to achieve its goals.

A written long-term strategic plan regarding how to develop the District would allow the District to make better decisions due to a clearer direction and vision. It would also improve management and help focus on the accomplishment of goals and objectives to improve performance. Establishing written goals and objectives would also allow the District to measure progress in the development of the port.

LONG-TERM PLANNING	
RECOMMENDATION 2	<i>The Board should develop and approve a written long-term plan for the District that includes written goals and objectives. The plan should address District and port operations, include a plan for marketing the port, and ensure the future financial viability of the District.</i>

DISTRICT RESPONSE	The IIPD Board previously commissioned two economic impact studies, in 2003 and 2011, along with a Strategic Plan study in 2012. The Board of Directors is currently reviewing options received for a Master Lease structure (RFI 2013) for the District which would include all of the financial and marketing aspects as well as the future financial viability of the Port District.
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BOARD OPERATIONS

The Board established by-laws in 1979 that govern the Board’s operations. The by-laws established officers including a Chairman, Vice-Chairman, Secretary, and Treasurer and the duties of each officer.

The by-laws also establish:

- Regular monthly meeting dates and rules of order;
- Election and appointment of officers; and
- Quorum requirements (five members).

We reviewed board meeting minutes for 2010 and 2011 and found that the Board held a monthly meeting as required by law and each meeting had a quorum. At all of the regular meetings the Board members approved the previous meetings’ minutes, the Treasurer’s report, monthly and year-to-date financial statements, and the monthly check register.

We reviewed the information provided to Board members at meetings and found that financial information provided to members does not include District payroll information, electronic fund transfers (EFTs), or bank statements. When we inquired as to whether the Board received monthly records of EFTs or banking information, a District official responded that all transactions are reflected in the financial statements and reports which are approved by the Board. However, the financial statements provided to Board members do not present a detailed account of EFT or payroll transactions to allow for full disclosure and transparency of transactions.

INFORMATION PROVIDED TO THE BOARD	
RECOMMENDATION 3	<i>The Board should consider adding electronic fund transfers, payroll, and banking statements to the information that is reviewed and approved at monthly meetings.</i>
DISTRICT RESPONSE	In April 2013, the Board directed the Staff and Treasurer to implement a policy to treat electronic fund transfers in the same way that it does checks.

Committee Meetings

The Board by-laws establish six standing committees of the Board:

- **Executive Committee** - The Executive Committee **oversees the administrative operations of the Port District and may take actions on any matter not reserved for the Board as may be necessary to effectuate decisions of the Board or administer those operations.** The Executive Committee consists of the Chairman, Vice-Chairman, and two other Board members. The Secretary serves as an ex officio non-voting member.
- **Economic Development Committee** - The Economic Development Committee **considers and acts upon matters relating to economic development in the Port District** and conducts studies to determine the best use of assets so that they will bring the most financial benefit to the District.
- **Marketing Committee** - The Marketing Committee **is responsible for conducting studies and hearings to determine how to increase the freight and shipping traffic within the District** and considers and makes recommendations to the Board as to the methods and means to attract new business to the District.
- **Finance and Personnel Committee** - The Finance and Personnel Committee **advises and recommends to the Board and the Chairman in the formulation and implementation of policies relative to compensation to be paid employees of the District, their pensions and fringe benefits, and all other affairs pertaining to personnel.** The Committee also considers and acts upon matters relating to revenues and expenses and budget of the District. All matters pertaining to personnel and finance are under the auspices of the Committee.
- **Legislation Committee** - The Legislation Committee **considers and makes recommendations to the Board and the Chairman on pending and proposed State and federal legislation** and other government-related affairs of the district.
- **Leases and Agreements Committee** - The Leases and Agreements Committee **considers and evaluates all new or prospective leases and examines and reviews all existing leases** at the district and shall make recommendations to the Board and Chairman on such leases and agreements.

According to the District's by-laws, each committee consists of at least three members, including a chairman appointed by the Chairman of the Board. The Chairman of the Board also serves as an ex officio member of each committee of which he is not a regular member and is entitled to vote if one or more of the regular members are absent, in which case he shall be counted in determining quorum and shall also be entitled to vote as such ex officio member to decide a tie vote. Committees are required to report all actions taken by the committee to the Board for proper action at a regular or special meeting.

We reviewed Board meeting minutes and found that although the Board was holding monthly meetings as is required by law, **three committees established in the Board by-laws did not meet during 2010 or 2011. The committees that did not meet were the Economic Development Committee, Marketing Committee, and Legislation Committee.** The responsibilities of these committees include determining the best use of District assets, attracting

new business, and considering pending and proposed legislations. Because these committees have such critical responsibilities assigned to them, the Board should consider either holding committee meetings on a regular basis or revising their by-laws to allocate these duties to a different committee.

BOARD COMMITTEES	
RECOMMENDATION 4	<i>The District should ensure that committees established by the Board's by-laws meet on a regular basis.</i>
DISTRICT RESPONSE	The IIPD agrees and, for this reason, in April 2013 the Board revised its by-laws to reduce the number of standing committees to two, which routinely meet on a monthly basis.

Board Appointees, Officers, Consultants, and Contractors

The Illinois International Port District Act allows that the Board may appoint a general attorney and a chief engineer, and shall provide for the appointment of other officers, attorneys, engineers, consultants, agents, and employees as may be necessary. The Act also requires that the District shall define their duties and require bonds of them as the Board may designate (70 ILCS 1810/20).

The Board has appointed consultants for areas including engineering, legal services, Secretary of the Board, and Treasurer. The District could not provide agreements for these consultants to the Board when we requested copies of agreements for the audit period.

In 2010, professional services provided by the primary consultants to the District for which we could not obtain a contract or agreement totaled \$895,841. In 2011, these consultants' expenses totaled \$617,743. Exhibit 2-3 shows a list of professional services provided to the District and the Board for calendar years 2010 and 2011 by type of service.

In January 2012, the engineer for the District during the audit period merged with another engineering firm. The Board approved a letter of agreement with the new District engineer that included the services to be provided and the rates to be charged. The agreement, however, did not require bond be posted with the District.

Exhibit 2-3 BOARD EXPENSES WITHOUT A CONTRACT OR AGREEMENT Calendar Years 2010-2011		
Professional Service	2010 Expenses	2011 Expenses
Engineering	\$478,095	\$336,645
Legal Services	\$332,746	\$196,098
Secretary of the Board	\$25,000	\$25,000
Treasurer ¹	\$60,000	\$60,000
Totals	\$895,841	\$617,743
Note: ¹ Includes payments made to Treasurer's consulting firm totaling \$70,000 during the two-year period. Source: Port District General Ledger for 2010 and 2011.		

Because there were no agreements in place during the audit period with those providing services to the Board and District, we could not determine the scope of services to be performed, the rate(s) to be charged, or whether they were required to post bond with the District.

According to the Board’s by-laws, the Treasurer is required to submit a surety bond to the District. When we requested documentation of the Treasurer’s surety bond, the District provided a two-page summary of an insurance proposal for a policy for Public Officials and Employment Practices Liability. The policy proposal between the District and Mesirow Financial does not mention the Treasurer specifically.

BOARD APPOINTEES, OFFICERS, CONSULTANTS, AND CONTRACTORS	
RECOMMENDATION 5	<p><i>The Board should:</i></p> <ul style="list-style-type: none"> • <i>Develop and execute agreements showing the duties to be performed and the rates charged for services; and</i> • <i>Consider requiring surety bonds.</i>
DISTRICT RESPONSE	<p>The General Counsel, the Engineer, the Secretary to the Board, and the Treasurer are not consultants, but in fact are statutory officers created by the District’s enabling Act.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><u>Auditor Comment #5</u></p> <p><i>Auditors agree that the Board’s appointees are established by State law and that Board by-laws establish requirements for some of these positions. However, the auditors conclude that formal agreements between the Board and these appointees which delineate the scope of services and other standard contractual requirements would better protect the interests of both the Board and the appointees. In fact, in January 2012 the District’s engineer requested that the Board approve an agreement delineating the rate of pay, scope of services, and other standard contractual provisions, which was subsequently accepted by the Board and signed by the Executive Director.</i></p> </div> <p>The <u>General Attorney</u> is a statutory officer of the District, the appointment being expressly authorized by the Act. 70 ILCS 1810/20. The Board may, and has, retained other attorneys with special expertise, as may be necessary. A general attorney, as designated by the Act and as identified by other Illinois statutory authorities, is commonly understood to be the chief legal officer of the agency responsible for all its legal activities. 25 ILCS 170/2(c)(3). On November 16, 2012, the Board formally ratified a fee agreement with its General Attorney.</p>

<p>District Response (continued)</p>	<p>Each year the District ratifies the appointment of the General Attorney, Chief Engineer, Board Secretary, and Treasurer by prospectively providing an allocation for payment in the annual budget. The General Attorney submits monthly billing detailing with specificity the services provided. The General Counsel is not required to post a bond, however the General Counsel does have professional liability insurance.</p> <p>The <u>Chief Engineer</u> is a statutory officer of the District, the appointment being expressly authorized by the Act 70 ILCS 1810/20. The Chief Engineer provides a detailed monthly billing of services provided in support of its monthly payments. The Chief Engineer is not required to post a bond, however the Engineer does have professional liability insurance.</p> <p>The <u>Secretary to the Board</u> is a statutory officer of the District, the appointment being expressly authorized by the Act. 70 ILCS 1810/17. On February 15, 2013, the Board formally ratified the compensation for the Secretary. The duties of the Secretary, who is an ex-officio member of the Board, are described in the By-Laws of the Port District as follows:</p> <p style="padding-left: 40px;">The Secretary – The Board shall appoint a Secretary “who need not be a member of the Board, to hold office during the pleasure of the Board, and he/she shall take and subscribe the Constitutional Oath of Office. The Secretary shall be the custodian of all records and a seal of the District, should it adopt a common seal, and shall keep accurate minutes of the meetings of the Board and all of the committees thereof. He/She shall, when required, certify to copies of records of the Authority, and shall execute legal instruments and documents on behalf of the Board, and shall issue subpoenas to secure the attendance and testimony of witnesses, and the production of books and papers relevant to Board instituted investigations and the production of books and papers relevant to Board instituted investigations and the production of books and papers relevant to such investigations, and to any hearings before the Board or any member thereof, if and when so ordered by the Board. He/She shall perform all such other duties as directed by the Board.” Page 5 Bylaws, amended 2013. The Secretary to the Board is not required to post bond.</p> <p>The <u>Treasurer</u> is a statutory officer of the District, the appointment being expressly authorized by the Act. 70 ILCS 1810/17. The duties of the Treasurer, who is an ex-officio member of the Board, are described in the By-Laws of the Port District as follows:</p> <p style="padding-left: 40px;">The Board shall appoint a Treasurer, “who need not be a member of the Board. The Treasurer shall be responsible for all monies of the Illinois International Port District from whatever sources received, and for all securities in the</p>
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<p>District Response (continued)</p>	<p>possession of the Authority, and for the deposit of such monies in the name of the Illinois International Port District in a bank or banks approved by the Board; and he/she shall be responsible for all disbursements of such funds for the purposes for which intended or as authorized or directed by the Board. The Treasurer shall make periodic accountings for all such funds as determined by the Board, and his/her books and records shall be available for inspection by any member of the Board during business hours. Before entering upon the duties of this office, he/she shall take and subscribe the Constitutional Oath of Office, and shall execute a bond with corporate sureties to be approved by the Board. The bond shall be payable to the District in whatever penal sum may be directed by the Board conditioned upon the faithful performance of the duties to the office and the payment of all money received by him/her according to law and the orders of the Board. The Board may, at any time, require a new bond for the Treasurer in such penal sum as may then be determined by the Board. The obligation of the sureties shall not extend to any loss sustained by the insolvency, failure or closing of any national or state bank where in the Treasurer has deposited funds if the bank has been approved by the Board as a depository for these funds.” Page 5, 6 Bylaws, amended 2013. The Treasurer is currently covered under the District’s Directors and Officers liability insurance.</p>
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ECONOMIC INTEREST STATEMENTS

According to the Illinois International Port District Act, no member of the Board or employee of the District shall have any private financial interest, profit or benefit in any contract, work or business of the District nor in the sale or lease of any property to or from the District (70 ILCS 1810/12).

We obtained the economic interest statements for Board members for 2012. All nine members filed a Statement of Economic Interest with either the Cook County Clerk or the Illinois Secretary of State. None of the statements disclosed evidence of a financial interest in the District.

BOARD COMPENSATION

The Illinois International Port District Act allows that Board members can be compensated up to \$20,000 per year. The Chairman can be compensated up to \$25,000. According to the 2010 and 2011 financial statements Board compensation totaled \$230,000 and \$235,000, respectively. We reviewed the District general ledger and found that these amounts also included part of the salaries for the Secretary to the Board and the Treasurer. According to District officials, the Secretary to the Board and Treasurer are considered ex officio members of the Board and not District employees.

In addition to their salaries, Board members can also receive other non-salary compensation. The Act states that:

*“...The members of the Board shall receive compensation for their services, set by the Board at an amount not to exceed \$20,000.00 annually, except the Chairman may receive an additional \$5,000.00 annually, if approved by the Board. All such compensation shall be paid directly from the Port District's operating funds. The members shall receive no other compensation whatever, whether in form of salary, per diem allowance or otherwise, for or in connection with his service as a member. **The preceding sentence shall not prevent any member from receiving any non-salary benefit of the type received by employees of the District.**” (70 ILCS 1810/12)(emphasis added)*

According to District officials, in addition to receiving a salary, board members may also qualify to receive a pension through the District. The District's pension plan and benefits are discussed further in Chapter Three - Financial Management.

Chapter Three

FINANCIAL MANAGEMENT

CHAPTER CONCLUSIONS

For the five-year period 2007-2011, the District had an operating loss for four of the five years. The District's operating losses for 2010-2011 totaled over \$1.2 million (\$965,702 loss in 2010 and \$250,770 loss in 2011).

The District also faced several financial challenges during 2010-2011 including:

- Declining golf revenues;
- Declining account balances;
- A significantly underfunded non-contributory pension plan. The District's pension plan as of 2011 was only funded at 30.52 percent;
- A \$14,968,090 loan payable to the State of Illinois which the District has not made a payment on since the agreement was executed in 1980; and
- \$15,000,000 in Variable Rate Revenue Refunding Bonds, Series 2003 with escalating payment provisions through 2033.

The Illinois International Port District has established an annual budgeting process and tracks income and expenses on a monthly basis. However, our review of the District's financial management found that the District:

- Had not established thresholds at which expenses should be competitively bid and did not have contracts and agreements with vendors;
- Did not have up-to-date policies regarding the approval of expenses;
- Did not adequately segregate financial and banking duties;
- Had not established a property control system that included tagging or tracking real property; and
- Did not use fleet cards for employees with take home vehicles and did not require mileage logs to be submitted by employees assigned a vehicle.

The District is required to prepare a complete and detailed report and financial statement of its operations and of its assets and liabilities annually (70 ILCS 1810/22). According to the Board's Treasurer, because the Board was trying to determine if it wanted to change the basis of accounting, the District was unable to provide a copy of its 2010 audited financial statements to the Capital Development Board as is required by a loan agreement with the State of Illinois. The 2010 audited financial statements for the District were issued with the 2011 statements. In addition, the District's audited financial statement for 2010 and 2011 did not contain:

- Notes regarding assets located in sinking fund(s); or
- A schedule showing an analysis of Iroquois Landing's profitability.

The District should also consider changing its basis of accounting for financial statements to GAAP as is required by a bank reimbursement agreement between the District and U.S. Bank related to the 2003 issuance of \$15 million in bonds.

In our review of employee benefits we found that the District does not require employees to contribute toward the cost of their insurance or their pension plan. The District was also paying for health insurance for a previous Board member 22 months after the member left the Board and had purchased life insurance which covered one of the consultants to the Board (the Treasurer). Although the District provided documentation of reimbursement of the health insurance for the previous Board member for the month reviewed, we could not determine whether the District was properly reimbursed by this individual for the total cost of health insurance for 2011. We requested information to show that this individual reimbursed the District for all costs associated with his coverage for 2011. However, the District did not provide documentation.

In our review of a telecommunications expense we found that the District paid for 65 lines in August 2011 and should reassess its telecommunications needs. The District provided documentation to show that in January 2013, 53 lines were transferred to the new contractor responsible for managing Harborside Golf Center.

REVENUES AND EXPENSES

Exhibit 3-1 shows the revenues and expenses for the Port District including Harborside Golf Center. **For the five-year period 2007-2011, the District had an operating loss for four of the five years. The District's operating losses for 2010-2011 totaled over \$1.2 million (\$965,702 loss in 2010 and \$250,770 loss in 2011).** The District's audited financial statements report revenues separately for port operations and golf operations; however the expenses for the port and golf operations are reported as combined. Over the past five years, revenues from port operations have increased while revenues from golf operations have decreased. For four of the past five years, the District has reported an overall operating loss.

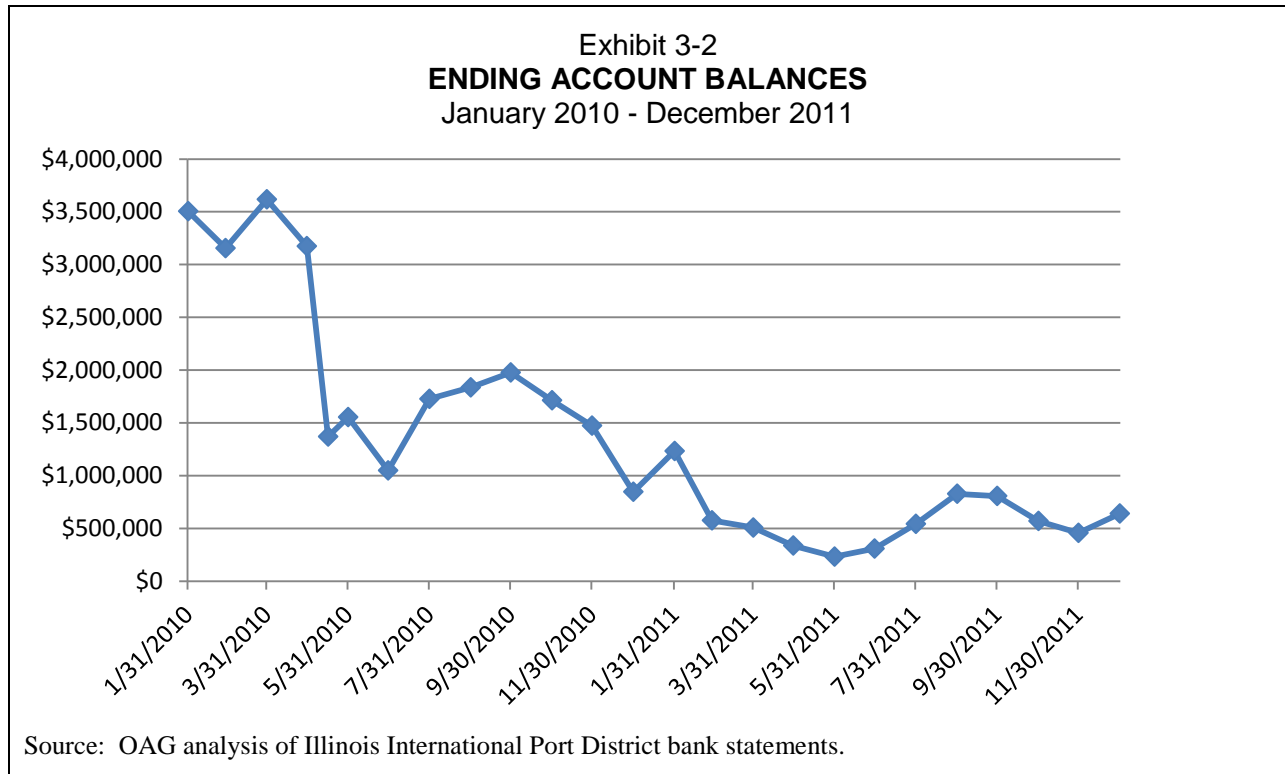
Exhibit 3-1 ILLINOIS INTERNATIONAL PORT DISTRICT REVENUES AND EXPENSES 2007-2011					
	2007	2008	2009	2010	2011
Port Revenues	\$3,343,481	\$4,261,086	\$4,283,387	\$4,178,798	\$4,630,286
Golf Revenues	\$4,227,916	\$4,283,269	\$3,500,057	\$3,233,939	\$3,098,594
Total Revenues	\$7,571,397	\$8,544,355	\$7,783,444	\$7,412,737	\$7,728,880
Expenses ¹	\$7,939,797	\$8,251,515	\$8,239,464	\$8,378,439	\$7,979,650
Operating Loss	(\$368,400)	\$292,841	(\$456,020)	(\$965,702)	(\$250,770)
Note: ¹ Although the Illinois International Port District's financial statements report Golf Revenues and Port Revenues separately, expenses are reported as combined. Totals may not add due to rounding. Source: OAG analysis of the Illinois International Port District's audited financial statements.					

Although the audited financial statements do not account for expenses separately, income statements submitted to the Board for approval at monthly meetings do. We reviewed the statements approved by the Board at meetings for December each year and found the **District income statements showed a positive net income** of \$1,009,295 in 2010 and \$1,248,175 for 2011. **Harborside's income statement showed net losses** of \$623,483 in 2010 and \$996,217 in

2011. Therefore, port revenues were being used to cover golf course losses during the two-year audit period we reviewed.

Account Balances

The District's available cash has decreased significantly over the past two years. We reviewed the ending account balances for the District for the period January 2010 through December 2011. The District's cash balance dropped from over \$3.5 million in January 2010 to \$639,918 in December 2011 (see Exhibit 3-2).



We found several large transfers and debits that contributed to the quick and steady decline of the District's bank account during the audit period. These included:

- On May 3, 2010, there was debit memo for \$1,507,778.
- On May 6, 2010, there was a transfer to deposit for \$165,741.
- On February 22, 2011, there was an assisted telephone transfer for the amount of \$670,216.

We followed up with the District Treasurer about these transfers. The Treasurer responded that in 2003 the Port District entered into its \$15 million Variable Rate Revenue Refunding Bond with Pullman Bank (which became Park National which then in late 2009 became U.S. Bank). He also stated that there has always been a sinking fund associated with this debt; however, beginning in 2010, U.S. Bank required that a separate account be set up for the Sinking Fund. In May 2010, U.S. Bank transferred the sinking fund amount into such account. In February 2011, the amount was transferred into a Certificate of Deposit which allowed the

sinking fund to earn a better return. A sinking fund is a fund that is set up and accumulated by deposits for paying off the principal of a debt when it falls due.

Budgeting

We reviewed Board meeting minutes that showed an annual budget is approved by the Board. In December of each year the Board discusses and approves an annual budget. Board members are then provided with income statements each month that track the income and expenses budgeted compared to actual income and expenses. The Board's Finance Committee also meets to discuss the budget.

PURCHASING AND CONTRACTUAL SERVICES

The Illinois International Port District Act requires that all leases or other contracts for operation of any public warehouse or public grain elevator owned or otherwise controlled by the District which are entered into on or after July 1, 1955, shall be governed by the following procedure: Notice shall be given by the District that bids will be received for the operation of such public warehouse or public grain elevator. According to the Act, the notice shall be published not more than 30 days nor less than 15 days in advance of the first day for the submission of bids in any one or more newspapers designated by the District which have a general circulation within the District. The notice shall state the following:

- Time and place where the bids may be submitted;
- Time and place of opening of bids; and
- Specify sufficient data of the proposed operation to enable bidders to understand the scope of the operation.

However, not all contracts are subject to award by competitive bidding requirements. For example, contracts for the services of individuals possessing a high degree of personal skill, contracts for the purchase or binding of magazines, books, periodicals, pamphlets, reports and similar articles, and contracts for utility services such as water, light, heat, and/or telephone are not subject to the competitive bidding requirements (70 ILCS 1810/5.02).

When we requested **the District's purchasing policies**, we were provided a two-page **memo dated February 1986 (see Exhibit 3-3)**. Upon review of the draft report, the District noted that it had a policy that requires bids. Auditors noted that the only policy provided by the District was dated 1986 and requested that any additional policies be provided. **The District subsequently sent an undated policy which is shown in Exhibit 3-4**. The District's policy memo states:

In addition and supplemental to Board of Directors policy regarding purchases, no agreements, contracts, purchase orders or other obligations involving the expenditure of Port District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until prices for the items or services are obtained from at least three different suppliers or contractors. Such prices shall be obtained by written proposal, telephone, or otherwise, and a written record of each price and its source shall be made and retained for future

Exhibit 3-3
PURCHASING POLICY ORIGINALLY PROVIDED

ILLINOIS
INTERNATIONAL PORT
Butler Drive/Lake Calumet
Chicago, Illinois 60633
312.646.4400

TO: Franklynn B. Albert
Richard H. VanDerzee
Anthony G. Ianello
Michael A. Simons
Dawn M. Perpich

FROM: Gilbert J. Cataldo
Executive Director

DATE: February 17, 1986

SUBJECT: PURCHASING POLICY

In order to clarify and formalize the operating administrative policy regarding the purchase of supplies, equipment or services with Port District funds, the following policy shall be followed in making any of the above types of purchases:

POLICY:

In addition and supplemental to Board of Directors policy regarding purchases, no agreements, contracts, purchase orders or other obligations involving the expenditure of Port District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until prices for the items or services are obtained from at least three different suppliers or contractors. Such prices shall be obtained by written proposal, telephone, or otherwise, and a written record of each price and its source shall be made and retained for future reference. Selection of the supplier or contractor from which to make the purchase is made shall be based upon the lowest responsible, qualified price; however, awarding a contract or agreement will be made using sound fiscal and administrative judgement.

EXCEPTIONS:

There shall be no exceptions to the above policy except upon the approval of the Executive Director under one of the following circumstances:

1. The supplies, equipment or tools, or services are economically available from only one source, i.e., telephone service, electrical energy, publications, subscriptions, memberships, etc.



Port of Chicago
Foreign Trade Zone No. 22

PURCHASING POLICY

Page 2.

EXCEPTIONS (CONT'D)

2. The services are those of an individual requiring a high degree of professional skill and where the fitness of the individual plays an important part in the selection of the supplier, i.e., engineers, accountants, artistic or editorial services, etc.
3. Any emergency involving the protection, personal safety, or Port District property where expenditures are necessary to prevent further loss or damage or to prevent or minimize serious disruption of Port District services.

/MSL

Purchasing Policy Originally Provided



Exhibit 3-4

PURCHASING POLICY SUBSEQUENTLY PROVIDED ON MAY 15, 2013

SUBJECT: PURCHASING POLICY

In order to clarify and formalize the operating administrative policy regarding the purchase of supplies, equipment or services with Port District funds, the following policy shall be followed in making any of the above types of purchases:

POLICY:

In addition and supplemental to Board of Directors policy regarding purchases, no agreements, contracts, purchase orders or other obligations involving the expenditure of Port District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until prices for the items or services are obtained from at least three different suppliers or contractors. Such prices shall be obtained by written proposal, telephone, or otherwise, and a written record of each price and its source shall be made and retained for future reference. Selection of the supplier or contractor from which to make the purchase is made shall be based upon the lowest responsible, qualified price; however, awarding a contract or agreement will be made using sound fiscal and administrative judgement.

EXCEPTIONS:

There shall be no exceptions to the above policy except upon the approval of the Executive Director under one of the following circumstances:

1. The supplies, equipment or tools, or services are economically available from only one source, i.e., telephone service, electrical energy, publications, subscriptions, memberships, etc.



Port of Chicago
Foreign Trade Zone No. 22

PURCHASING POLICY

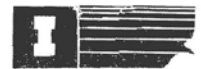
Page 2.

EXCEPTIONS (CONT'D)

2. The services are those of an individual requiring a high degree of professional skill and where the fitness of the individual plays an important part in the selection of the supplier, i.e., engineers, accountants, artistic or editorial services, etc.
3. Any emergency involving the protection, personal safety, or Port District property where expenditures are necessary to prevent further loss or damage or to prevent or minimize serious disruption of Port District services..

/MSL

Purchasing Policy Provided on 5/15/2013



reference. Selection of the supplier or contractor from which to make the purchase is made shall be based upon the lowest responsible, qualified price; however, awarding a contract or agreement will be made using sound fiscal and administrative judgment.

There shall be no exceptions to the above policy except upon the approval of the Executive Director under one of the following circumstances:

- 1. The supplies, equipment or tools, or services are economically available from only one source , i.e., telephone service, electrical energy, publications, subscriptions, memberships, etc.*
- 2. The services are those of an individual requiring a high degree of professional skill and where the fitness of the individual plays an important part in the selection of the supplier, i.e., engineers, accountants, artistic or editorial services, etc.*
- 3. Any emergency involving the protection, personal safety, or Port District property where expenditures are necessary to prevent further loss or damage or to prevent or minimize serious disruption of Port District services.*

We reviewed the District’s expenditures for 2010 and 2011. The vendor that received the largest amount of payments from the District for the audit period was ServiScape which was paid \$2,266,398 in 2010 and \$2,346,657 in 2011. The District has been contracting with ServiScape since 1995 for the maintenance of golf course facilities and equipment and to provide golf course operations personnel at Harborside International. The contract was allowed to expire December 31, 2012. The District signed a contract with K.S. Harborside LLC (KemperSports) to manage Harborside effective January 1, 2013.

Although the District was able to provide a signed contract and extensions for ServiScape, our review of District expenses showed that there were many contractors and suppliers that accounted for large expenses each year for which there was either no agreement or the agreement had expired.

Exhibit 3-5 EXAMPLES OF EXPENSES WITHOUT CONTRACTS/AGREEMENTS 2010-2011				
Vendor	Purpose	2010 Expenditures	2011 Expenditures	Total
Protective Services Systems	Security	\$614,716	\$609,451	\$1,224,167
Osco Incorporated	Fuel	\$94,879	\$122,551	\$217,430
All Star Fence Co.	Fence	\$124,213	\$62,086	\$186,298
Hayes Mechanical	Mechanicals	\$89,225	\$79,998	\$169,222
Calumet City Plumbing	Plumbing	\$57,818	\$71,614	\$129,433
Note: Totals may not add due to rounding.				
Source: OAG analysis of Illinois International Port District Expenses for 2010-2011.				

Security is an example of the lack of contracts/agreements between the District and vendors providing services. Protective Services signed a one year agreement with the District commencing January 1, 2001, to provide security officers at the District. The agreement also

contained two one-year renewal provisions. Therefore, the agreement would have expired December 31, 2003, if both extensions were utilized. There was no evidence to show that the agreement was renegotiated to take into account changes in Homeland Security requirements since January 2001. We were unable to obtain a current agreement between the District and Protective Services even though, according to the District’s general ledger, the company was paid \$614,716 in 2010 and \$609,451 in 2011. Other examples of services and materials being purchased by the District without contracts or agreements included fencing, plumbing, fuel, and mechanical installation and repairs (see Exhibit 3-5).

In addition, there were a number of vendors and service providers that did not have agreements with the District. Because there were no agreements, we could not determine the scope of services or how charges and rates were determined.

PURCHASING AND CONTRACTUAL SERVICES	
RECOMMENDATION 6	<p><i>The District should comply with its purchasing policy and:</i></p> <ul style="list-style-type: none"> • <i>Establish dollar thresholds at which competitive bids/proposals are required; and</i> • <i>Establish contracts with all vendors over a set threshold.</i>
DISTRICT RESPONSE	<p>We take this recommendation seriously and will review our policies. Notwithstanding the legal opinion set forth below, the IIPD has bid out every contract of substantial size in recent years. The following legal opinion was prepared by the Port District’s General Counsel on March 10, 1981, and has been the policy of the District since that time. The opinion relied primarily on two statutes: the Chicago Regional Port District Act, and the Illinois Purchasing Act. The Chicago Regional Port District Act is currently titled the Illinois International Port District Act, and the Illinois Purchasing Act has been updated to the Illinois Procurement Code. Accordingly, the substance and conclusions remain applicable with the updated citations found herein:</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><u>Auditor Comment #7</u></p> <p><i>Although the District responded that it has “bid out every contract of substantial size in recent years,” auditors found numerous instances where there was no contractual agreement or evidence that competitive procurement occurred for large expenditures (see Exhibit 3-5).</i></p> </div> <p>It is our determination that the Port District is not required to public bid its purchase contracts. This is clear from our analysis of the Port District Enabling Act and the other statutes pertaining to units of local government. As noted in the enclosed opinion, the Port District is only required to public bid contracts and agreements relating to the operation of warehouse facilities and terminals constructed before August 6, 1963.</p>

<p>District Response (continued)</p>	<p align="center">PUBLIC BID REQUIREMENT PRIOR TO THE LETTING OF CONTRACTS FOR THE PURCHASE OF PERSONAL PROPERTY AND/OR PERFORMANCE OF SERVICES</p> <p>It is the opinion of special counsel to the Illinois International Port District that the Port District is not required to publicly bid any contract for the purchase of personal property or the performance of services. The opinion is based upon a review and analysis of the Illinois International Port District Act (70 ILCS 1810/1 et. seq.), the Illinois Procurement Code (30 ILCS 500/1-1 et. seq.), and the Illinois Municipal Code (65 ILCS 5/1-1-1 et. seq.).</p> <p align="center">OPINION OF COUNSEL</p> <p>The Illinois International Port District Act (70 ILCS 1810/1 et. seq.) (hereinafter "Port District Act") gives the Port District the right and power to enter into contracts for the purpose of improving and developing Lake Calumet as a water and land transportation facility. The Port District Act (70 ILCS 1810/1 et. seq.) does not require public bidding prior to the granting of a contract for the purchase of personal property or the performance of services. The only requirement for the bidding of Port District contracts appears in Section 502 of the Port District Act (70 ILCS 1810/5.02). Section 5.02, as originally enacted in 1955, expressly requires public bidding for "all leases or other contracts for operation of any public warehouse or public grain elevator." That section sets forth the procedure for such bidding. In 1963, the General Assembly changed the law and eliminated the bid requirement for public warehouses and public grain elevators constructed after August 6, 1963.</p> <p>The General Assembly specified that the Port District must bid contracts to lease warehouses constructed prior to August 6, 1963. By requiring bidding for this kind of contract, but no others, the legislature evidenced its intention not to require bidding for other kinds of contracts.</p> <p>The Illinois Procurement Code (30 ILCS 500/20-5 et. seq.) contains a provision which delineates a specific bidding procedure with respect to the acquisition of personal property and the letting of services contracts. However, the Illinois Procurement Code does not apply to the Port District. The Illinois Procurement Code applies only to "State Agencies." The Port District is not included within the statutory definition of "State Agencies." A "State Agency" is a body politic and corporate of the state "other than units of local government." (30 ILCS 500/1-15.100). The Port District is a unit of local government. Section 3 of the Port District Act provides that the District is "a political subdivision, body politic and municipal corporation" (70 ILCS 1810/3). A political subdivision, body politic and municipal corporation is a unit of local government, hence, the bidding procedure outlined in the Illinois Procurement Code does not apply to the Port District.</p>
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<p>District Response (continued)</p>	<p>Similarly, the Illinois Municipal Code does not apply to the Port District (65 ILCS 5/1-1-2). Municipality is defined in Section 1-1-2 of the Illinois Municipal Code:</p> <p style="padding-left: 40px;">"Municipal' or 'Municipality' means a city, a village, or incorporated town in the State of Illinois, but, unless the context otherwise provides, 'Municipal' or 'Municipality' does not include a township, town when used as the equivalent of a township, incorporated town which has superseded a civil township, county, school district, park district, sanitary district, <u>or any other similar governmental district ••</u>" (Emphasis Added.)</p> <p>By definition, the Port District is not a municipality subject to the provisions of the Illinois Municipal Code.</p> <p>Section 27 of the Act (70 ILCS 1810/27) supports the legal conclusion that the Illinois Municipal Code and its public bidding requirements are not applicable to the purchases, acquisitions and contracts of the Port District. Section 27 of the Act provides as follows:</p> <p style="padding-left: 40px;">"The provisions of the Illinois Municipal Code, as heretofore and hereafter amended, <u>shall not be effective within the area of the district insofar as the provisions of said act conflict with the provisions of this Act</u> or grants substantially the same powers to any municipal corporation as are granted to the district by this Act." (Emphasis added).</p> <p>From the preceding provision, it is clear that when there is a conflict between a specific provision of the Port District Act (70 ILCS 1810/1 et. seq.) and the Illinois Municipal Code the Port District Act will prevail.</p> <p>Further, Section 27 obviates any doubt as to superiority of the Port District Act over the Illinois Municipal Code as it relates to the acquisition and purchase of goods and services. The phrase "... or grants substantially the same power to any Municipal Corporation as are granted to the District by this Act," is incorporated into each Port District Act establishing and controlling the different port districts within the State of Illinois. For example, the same language is incorporated into Section 209 of the Waukegan Regional Port District Act (70 ILCS 1865/31) Section 280 of the Joliet Regional Port District Act (70 ILCS 1825/30) and Section 314 of the Tri-City Regional Port District Act (70 ILCS 1860/31). The inclusions of each of these sections exempts each particular port district, including the Port District, from the provisions of the Illinois Municipal Code. Thus, the Port District is not required to bid contracts for the provisions of services, or contracts for the purchase, lease or sale of personal property, materials, equipment or supplies.</p>
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District Response (continued)	CONCLUSION
	<p>Counsel has reviewed and analyzed the specific provisions of the Port District Act (70 ILCS 1810/1 et. seq.), Illinois Procurement Code (30 ILCS 500/1-1 et. seq.), and the Illinois Municipal Code (65 ILCS 5/1-1-1 et. seq.). It is the opinion of Special Counsel that there is no requirement for public bid prior to the purchase of personal property, materials, equipment, and supplies by the Port District and/or letting of a contract for the performance of services. The Port District may however impose bidding requirements when and where it determines that competitive bidding is appropriate and would be in the best interests of the Port District.</p>

APPROVAL OF EXPENSES

According to the Illinois International Port District Act, for expenditures of \$10,000 or more, the Chairman of the Board and the Treasurer must sign the check or draft (70 ILCS 1810/18). According to District officials, the Executive Director notifies the Board and initiates purchases below \$10,000. Invoices for purchases and expenditures are kept on site at the District and filed.

For expenses of less than \$10,000, the Act allows the Board to designate any of its members or any officer or employee of the District to affix the signature of the Chairman and another to affix the signature of the Treasurer to any check or draft for payment of salaries or wages and for payment of any other obligation. District officials noted that the Chairman, Vice Chairman, Treasurer, and Executive Director have signature authority. The purchasing policy provided by the District briefly outlines the process for approval of purchases. However, the policy lacks requirements for approval of expenses, such as date stamping invoices when they are received, requiring submission of detailed invoices before sending payment, outlining prohibited expenditures, and which individuals at the District have signature authority.

Our review showed that usually the Treasurer and Executive Director sign the checks. Our sampling of expenses also showed that the Executive Director's name appears to be affixed with a stamp. According to District officials, only the Executive Director has access to the stamp and it is kept in his desk drawer which is locked.

Of the 50 expenditures we reviewed, 26 were over \$10,000. All of the associated checks contained the signature of the Treasurer and Chairman as was required.

In our review we questioned several expenses including:

- An expense for a reception that included a \$1,700 charge for alcohol;
- An expense for health insurance for an ex-Board member for \$941; and
- An expense for life insurance for the Treasurer of \$413 (the policy beneficiary is the Illinois International Port Pension).

Our review of expenditures also showed:

- A lack of documentation of expenses - 6 of 50 had no invoice or the invoice lacked the detail needed to determine whether the expense was appropriate. One of the 6 was a payment to the pension trust which lacked an invoice.

- No date stamping when the invoice was received - for 38 of 50 expenditures the invoice did not contain a date stamp of the date the District received the bill or there was no invoice for the expense. Therefore, we could not determine payment timeliness.

APPROVAL OF EXPENSES	
RECOMMENDATION 7	<p><i>The District should:</i></p> <ul style="list-style-type: none"> • <i>Update its written policies for approval of expenses;</i> • <i>Date stamp invoices and bills when received; and</i> • <i>Require vendors to provide detailed support for charges to the District prior to payment.</i>
DISTRICT RESPONSE	<p>The IIPD agrees with this recommendation. During the audit period there was a personnel change, and the transition resulted in the omission of date stamping for a short period of time. This has been corrected. It is customary for vendors to supply detailed support for their charges. District staff has been directed to monitor this. The District currently has a procedure in place where the appropriate staff members review and approve expenses.</p>

Segregation of Accounting Duties

The District’s Treasurer is the only person with access to the District’s accounting system and bank records. The Treasurer makes entries into the accounting system, produces financial reports for the Board, and also signs checks. In January 2013, the District hired a new CFO. When we conducted visits to the District in January and March 2013, the CFO did not have access to the District accounting system or on-line access to banking records.

As an example of the impact the lack of review of accounting information at the District has had, we reviewed the May 2011 bank statements and compared the check numbers and amounts to the general ledger we were provided by the Treasurer. Our review showed that of the 141 checks on the bank statement, in 83 cases the check number and amount did not match the check number and amount in the general ledger. For example,

- Check #42636 is listed in the bank statement for \$106,361.65. When auditors reviewed the general ledger, Check #42636 was for \$4,242.25.
- Check #42583 is listed in the bank statement for \$12,855. When auditors reviewed the general ledger, Check #42583 was for \$138,995.82.
- Check #42704 is listed in the bank statement for \$8,600. When auditors reviewed the general ledger, Check #42704 was for \$1,666.67.

In an additional 6 cases we could not find the amount or check number in the general ledger to conduct the comparison. During the audit we obtained copies of checks that had been voided, which appeared in the general ledger and bank statements as written checks.

Segregation of duties by definition is the concept of having more than one person required to complete a task and is an internal control intended to prevent fraud or errors from

occurring. Having multiple individuals involved also increases the opportunity for review to help ensure the accuracy of the financial records.

SEGREGATION OF DUTIES	
<p>RECOMMENDATION</p> <p>8</p>	<p><i>The District should ensure that more than one person has access to and reviews accounting and banking information.</i></p>
<p>DISTRICT RESPONSE</p>	<p>Accounting systems encompass a number of areas including customer billing, bank records, payroll, payables and financial reporting. No one individual has sole access to any of these systems and the related</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><u>Auditor Comment #9</u></p> <p><i>Only one individual (the Treasurer) had access to the District's electronic accounting system and on-line banking information while auditors were performing their review which resulted in significant delays in obtaining financial information during the audit. For example, on November 6, 2012, auditors requested a download or back-up of the District accounting system. On November 7, 2012, auditors were on-site but District employees could not provide the download of the accounting system. On November 8, 2012, auditors contacted the Board Chairman to inform him that we could not obtain a download of the accounting system while on-site. On November 9, 2012, a conference call was held between the auditors, the Executive Director, and Treasurer. The Treasurer finally provided a download of the District's general ledger to auditors on November 26, 2012, in a text format which took a significant amount of time and effort to format into a usable file format.</i></p> <p><i>The new CFO was not hired until January 2013. This individual did not have access to the accounting system or on-line banking access during our on-site work. On February 1, 2013, auditors first met with the CFO at which time he stated that he did not have access to the electronic accounting system. On March 27, 2013, while conducting fieldwork on-site, the CFO stated that he had not been able to obtain access to the District's electronic accounting system and did not have access to on-line banking information for auditors.</i></p> </div> <p>information. The Board also reviews and approves monthly financial statements and monthly check registers. All checks have two signatures. Even with the small staff, key duties related to billing,</p>

<p>District Response (continued)</p>	<p>payroll and disbursements have appropriate segregation and controls in place including the Board review of financial information in comparison to the Board approved budget. This is done at the Board Committee level and by the full Board monthly. The CFO now has access to the accounting system and the bank records.</p>
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FINANCIAL STATEMENTS AND AUDITS

The Illinois International Port District Act requires the Board to prepare and print a complete and detailed report and financial statement of its operations and of its assets and liabilities annually. The Act requires that a copy be filed with the Governor and the county clerk of each county which is partially or wholly within the area of operation of the District. A copy of such report shall be addressed to and mailed to the Mayor and city council or president and board of trustees of each municipality within the area of the District (70 ILCS 1810/22).

In 1978, the District initially signed an agreement with the State of Illinois for the development of a containerized cargo handling facility (Iroquois Landing). An additional agreement was signed in 1980. The total outstanding on the loan according to the District's 2011 audited financial statements is \$14,968,090. According to the Capital Development Board's (CDB) 2011 financial audit, the loan agreement between the District and CDB requires payments to CDB based on percentages of Port District income or gross receipts, as defined in the agreements. As to the status of collections, the gross receipts, as defined by the loan agreement, have been insufficient to cause any payments to be made to CDB.

The District is required to prepare a complete and detailed report and financial statement of its operations and of its assets and liabilities annually (70 ILCS 1810/22). According to the District's Treasurer, because the Board was trying to determine if it wanted to change the basis of accounting, the District was unable to provide a copy of its 2010 audited financial statements to the Capital Development Board as is required by a loan agreement with the State of Illinois. The 2010 audited financial statements for the District were issued with the 2011 statements. In addition, the District's audited financial statement for 2010 and 2011 did not contain:

- Notes regarding assets located in sinking fund(s); or
- A schedule showing an analysis of Iroquois Landing's profitability.

During the audit we met with the auditor for the District and reviewed workpapers for the 2010 and 2011 financial audits. The audits we reviewed did not contain findings, recommendations, or other issues for follow-up. The audits we reviewed also did not contain any mention in the footnotes of assets contained in a sinking fund that had been established by the District and where these amounts are recognized in the assets.

ANNUAL AUDITED FINANCIAL STATEMENTS	
<p>RECOMMENDATION</p> <p style="font-size: 2em;">9</p>	<p><i>The District should issue an audit report annually as is required by the loan agreement with the State of Illinois. In addition, the District’s audited financial statement should:</i></p> <ul style="list-style-type: none"> • <i>Include notes regarding assets located in sinking fund(s); and</i> • <i>Include an analysis of Iroquois Landing’s profitability.</i>
<p>DISTRICT RESPONSE</p>	<p>The IIPD agrees with this recommendation. Since 1955, the District has engaged an independent auditor to issue an opinion on the District’s financial statements. It will be requested of the independent auditor that sinking fund assets will be included in the District’s audited financial statements. Moreover, since January, 2012, the information about the sinking fund has been included in the monthly financial statements that are provided to the IIPD Board and posted on the IIPD website. Furthermore, the independent auditors have given an opinion of their analysis of Iroquois Landing’s profitability annually.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Auditor Comment #10</u></p> <p><i>The District’s audited financial statements contained a single sentence in its notes which states, “...Iroquois Landing has not achieved net profit to date.” A more detailed analysis of Iroquois Landing’s annual profitability in the audited financial statements would provide more complete disclosure about the District’s ability to repay the \$14,968,090 loan from the State’s Capital Development Board. In addition, auditors were not provided with an analysis of Iroquois Landing’s annual profitability during the audit.</i></p> </div>

Basis of Accounting and Auditing

The District’s current financial reporting procedures are not in compliance with Generally Accepted Accounting Principles (GAAP) requirements as promulgated by the Governmental Accounting Standards Board. The District’s financial reporting is currently prepared and presented on a modified cash basis which is a non-GAAP basis of reporting. The District utilizes this basis of accounting for both budget and reporting purposes. Using the modified cash basis, revenue is recognized when received, rather than when earned, and expenses are recognized as they are incurred.

According to the Treasurer, preparing the financial statements on a GAAP basis would be more expensive and take more time. As the Port District’s 2010 and 2011 audited financial statements state, “Due to the limited use of these financial statements and the nature of the Port’s operations noted above, certain requirements set forth by Governmental Accounting Standards are not included in these financial statements because the additional information is not considered useful to the users of the financial statements.”

Banks and various funding sources may require accounting on a GAAP basis. The benefits of reporting financial information in accordance with GAAP include:

- GAAP basis requires accruals. Recording receivables and accrued expenses in the period in which they were incurred supports the matching concept (matching revenues and expenses in the same period).
- Because GAAP basis has definite “rules” about how and when to record transactions, financial statements prepared on this basis can be compared to financial statements of other organizations on GAAP basis.

The District entered into a reimbursement agreement with US Bank December 1, 2010. Section 5.5 of the agreement regarding financial reporting requires that District to use GAAP (see below). The previous agreement in 2003 also contained similar requirements.

Section 5.5. Reports. The Applicant will maintain a standard system of accounting in accordance with GAAP and will furnish to the Bank such information respecting the business and financial condition of the Applicant as the Bank may reasonably request; and without any request, will furnish to the Bank:

*(a) as soon as available, and in any event within 60 days after the close of each quarterly fiscal period of the Applicant, including the last quarterly fiscal period of each fiscal year, a copy of the balance sheet of the Applicant as of the close of such period and statements of income, retained earnings and cash flows of the Applicant for such period, all in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous fiscal year, **prepared by the Applicant in accordance with GAAP** and certified to by the chief financial officer of the Applicant;*

*(b) as soon as available, and in any event within 180 days after the close of each fiscal year of the Applicant, a copy of the balance sheet of the Applicant as of the close of such fiscal year and statements of income, retained earnings and cash flows of the Applicant for such period, and accompanying notes thereto, **all prepared in accordance with GAAP** and in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied by an opinion thereon of Ernst & Young or another firm of independent public accountants of recognized national standing, selected by the Applicant and satisfactory to the Bank, to the effect that the financial statements described herein have been **prepared in accordance with GAAP and present fairly in accordance with GAAP** the consolidated financial condition of the Applicant as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances. (emphasis added)*

According to the District’s external auditors, they assess controls regarding financial reporting. The biggest concern over this area is segregation of duties due to the small size of the

organization. According to audits of the District, they have not identified any violations of contracts, grants, or leases.

BASIS OF ACCOUNTING	
<p>RECOMMENDATION</p> <p>10</p>	<p><i>The District should consider changing its basis of accounting for financial statements to GAAP as is required by its bank reimbursement agreement related to the issuance of \$15 million in revenue bonds.</i></p>
<p>DISTRICT RESPONSE</p>	<p>The Board of Directors, on two separate occasions, has seriously solicited and reviewed numerous proposals from qualified major accounting firms and rejected a change from their current procedures from Modified Cash to GAAP accounting because it is not fiscally sound or prudent to make a change at this time because of the increased cost associated with a GAAP audit.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><u>Auditor Comment #11</u></p> <p><i>The Board's decision to not change to a GAAP accounting basis does not negate the fact that the bank reimbursement agreement requires accounting on a GAAP basis. Auditors requested that the District provide evidence that the bank had waived this requirement. The District did not provide any documentation.</i></p> </div> <p>The following is an Opinion Letter from the Port District's General Counsel:</p> <p>This responds to your suggestion that the GAAP accounting format required in the Illinois Governmental Account Audit Act ("Audit Act") may apply to the Illinois International Port District ("Port District"). 70 ILCS 310/1 The Audit Act would apply to the Port District only if: (a) its revenue constitutes "public funds" within the meaning of the Audit Act, (b) it exercises its power of appropriation to use such funds, and (c) it has appropriated more than \$5,000 of public funds for a specific project within a fiscal year.</p> <p>It should first be noted that the Port District receives no appropriation of State funds for its operations. Nor does the Port District have the power to levy taxes. 70 ILCS 1810/10. Instead, the Port District operates entirely on self-generated revenue from rents, and other fees, paid by its tenants. The Illinois Supreme Court has determined that, with respect to state auditing legislation, such funds are not considered to be "public funds" which require state supervision. City of Chicago v. Holland, 206 Ill. 2d 480, 495, 795 NE 2d 240, 249 (2003). We submit, therefore, that the Port District is not subject to the Audit Act.</p> <p>The Illinois International Port District Act contains a provision expressly governing the Port District's financial reporting requirements. Section 22 states:</p>

<p>District Response (continued)</p>	<p>“As soon after the end of each fiscal year as may be expedient, the Board shall cause to be prepared and printed a complete and detailed report and financial statement of its operations and of its assets and liabilities. A reasonable sufficient number of copies of such report shall be printed for distribution to persons interested, upon request, and a copy thereof shall be filed with the Governor and the county clerk of each county which is partially or wholly within the area of operation of the District. A copy of such report shall be addressed to and mailed to the Mayor and city council or president and board of trustees of each municipality within the area of the District.” 70 ILCS 1810/22.</p> <p>This reporting requirement does not require a GAAP accounting format. Accordingly, the GAAP accounting format, as required in the Audit Act, does not apply to the Port District.</p> <p>Furthermore, the independent auditor for the District has clearly stated in its Summary of significant accounting policies, that IIPD financial statements are “presented fairly,” and no payments to the State have been required per the loan agreement to date. Since 2003 the banks have waived the GAAP requirement, and when an event of default is waived, it is cured and stops continuing.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Auditor Comment #12</u></p> <p><i>Auditors requested that the District provide evidence that the bank had waived this requirement. The District did not provide any documentation.</i></p> </div>
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DISTRICT INDEBTEDNESS AND INVESTMENT INCOME

The District has accumulated approximately \$30 million in debt. The District owes the State of Illinois \$14,968,090 for a loan made in 1980 when the District purchased Iroquois Landing. As of December 31, 2011, the District has not paid any of this loan back to the State. The District also issued \$15 million in revenue bonds in 2003. The bonds mature on January 1, 2023.

Loan Payable To The State Of Illinois

Pursuant to a contract with the Capital Development Board, the Port District received \$14,968,090 of funds authorized for the acquisition and development of a containerization facility known as Iroquois Landing. The loan is interest free and there is no maturity date on repayment. Iroquois Landing opened for use in April 1981. Under the terms of the agreement, the Port District is to repay the funds received by remitting not more than 20 percent of the gross receipts and limited to not less than 20 percent of net profits attributable to Iroquois Landing operations. According to the District’s 2011 audit’s notes, no payments have been made through December 31, 2011, because Iroquois Landing has not achieved net profit to date. However, the

District's audits do not include a financial analysis of Iroquois Landing and whether a profit was achieved.

Other Long-Term Debt

On January 30, 2003, the Port District entered into a \$15,000,000, Variable Rate Revenue Refunding Bond, Series 2003 (the Variable Bond Agreement). The Variable Bond Agreement is by and among the Port District, as Borrower; Bank of America, as Trustee; and Fifth Third Securities, as Underwriter. Park National Bank is the lender. Under the loan agreement, the Port District makes only interest payments each year. The bonds mature on January 1, 2023. The assets of the Port District and the revenues to be derived from the Port District's operations have been pledged as security for the Variable Bond Agreement. The interest paid in 2011 and 2010 was approximately \$146,623 and \$134,035, respectively.

Another issue related to the 2003 bonds is the requirement to set aside moneys into a sinking fund as part of the reimbursement agreement. A separate sinking fund account was not established until May 2010. The original reimbursement schedule of bond sinking fund payments has these payments increasing each year from \$233,792 in 2004 to \$956,508 in 2033.

Investment Income

The District had interest income for 2010 and 2011 of \$2,261 and \$19,662, respectively. We asked the District's Treasurer how the District was investing excess cash. He responded that if excess cash was determined by the Board to be available, such investment direction would come from the Board. The cash levels have not been determined to warrant such investment consideration in recent years. The District did not have any written investment policies.

PAYROLL AND EMPLOYEE BENEFITS

Although payroll is processed by the Treasurer, the District has hired a payroll service to issue the checks and EFT's to employees. The Treasurer ensures that the payroll paperwork is ready twice a month, which includes making the proper deductions. The payroll deductions are taken out of the Salaries and Benefits line item. He physically types in the required information and electronically sends it to the payroll service. Six of the District employees receive their paycheck through an EFT, and one employee receives a hard copy.

Exhibit 3-6 shows the salaries of each District employee as of January 2011. Salaries and annual raises are presented to the Board in the prepared annual budget in order for the Board to vote on it in December. The changes take effect on January 1 of the next year. Currently, all employees are salaried.

Exhibit 3-6 DISTRICT EMPLOYEE SALARIES As of June 1, 2011			
Title	Hire date	Bi Monthly Salary	2011 Annual Salary
Executive Director	1/17/1984	\$8,381.03	\$201,144.72
Golf - Administrative Staff/Operations	6/12/1996	\$4,919.17	\$118,060.08
Golf - Administrative Staff/Finance	12/1/1994	\$4,919.17	\$118,060.08
Director of Facilities	1/15/1980	\$3,070.73	\$73,697.52
Executive Assistant	2/24/2003	\$3,054.00	\$73,296.00
Facility Superintendent	7/27/1983	\$2,453.51	\$58,884.24
Administrative Assistant/Finance	5/20/2011	\$2,453.51	\$58,884.24

Source: Illinois International Port District.

Insurance and Pension

District employees are not required to contribute toward the cost of their insurance or pension. According to District officials, both Board members and employees qualify for the District's pension plan.

The District is part of a local government health plan offered through the Illinois Department of Central Management Services (CMS), which is billed monthly according to the type of insurance selected. District employees are not required to contribute toward the cost of their health insurance. According to the District's general ledger, the District paid the Illinois Department of Central Management Services \$159,168 in 2010 and \$150,699 in 2011 for health insurance.

We reviewed a July 2011 monthly expenditure to CMS for health insurance for \$16,809. We found that the District was paying the health insurance for the previous Chairman of the Board and for another person that had previously been a Board member but was no longer on the Board. The monthly insurance for these two individuals was \$2,334 and \$941 respectively for that month.

According to the District, the individual that had previously been a Board member left the Board in October 2009 and was initially covered under COBRA and then decided to continue the policy and pay for it himself. To document reimbursement of the \$941 for the July 2011 insurance costs, the District provided a check from the individual to the District for \$662 dated June 24, 2011. The District also provided an e-mail detailing an additional \$279 payment made July 15, 2011, that was posted to the general ledger. Our review of the District's 2011 general ledger only showed four COBRA payments totaling \$1,834.70. Although the District provided documentation of reimbursement of the health insurance for the previous Board member for the month reviewed, we could not determine whether the District was properly reimbursed by this individual for the total cost of health insurance for 2011. We requested information to show that this individual reimbursed the District for all costs associated with his coverage for 2011. However, the District did not provide documentation. Because COBRA coverage generally ends

after 18 months, it is also unclear why the District was paying the cost of health insurance for a previous Board member who left the Board 22 months prior to the expense.

We reviewed a November 2011 expenditure for life insurance totaling \$8,025. We found that the District had purchased life insurance for the Executive Director and two other employees. In addition, although the Treasurer is not an employee, the District had purchased life insurance in the amount of \$413 during that month for him. According to the District, because this individual is Treasurer to the Board he is eligible for life insurance and the District's pension trust is the beneficiary of the policy.

We identified a total of 15 life insurance policies for 12 individuals that the District had purchased for the benefit of the pension plan. These included former Board members as well as the Treasurer. According to the District, the identified life insurance policies were purchased for pension plan members and payable to the pension plan trust as one component of funding future pension plan obligations. Upon occasional, routine reviews of the pension plan obligations, normally when a new employee was hired, it was determined that life insurance policies with benefits payable to the pension plan trust would provide funds that would then be available for future pension plan obligations. In accordance with the District's agreement with its pension plan administrator, **it was instructed to purchase the life insurance policies by the pension plan administrator.**

Pension Obligations

The Port District has a noncontributory (employees do not contribute) pension plan for employees and Board members. The benefit formula is based on 4 percent of the final average monthly pay multiplied by the years of participation up to 20 years. Therefore, an employee or Board member can retire after 20 years of service with 80 percent of their final average monthly salary. According to the District's audited financial statements, normal retirement is age 60 with five years of service.

Exhibit 3-7 DISTRICT PENSION OBLIGATIONS AND FUNDING 2008-2011				
Fair Value of Plan Assets	2008	2009	2010	2011
Beginning of Year	\$2,107,788	\$2,029,779	\$2,512,523	\$2,741,695
Actual return on assets	(\$227,561)	\$338,000	\$134,844	\$17,570
Employer Contribution	\$286,979	\$286,979	\$287,142	\$159,542
Employee Contribution	\$0	\$0	\$0	\$0
Benefits Paid	(\$137,426)	(\$142,235)	(\$192,814)	(\$206,441)
End of Year	\$2,029,780	\$2,512,523	\$2,741,695	\$2,712,366
Projected Benefit Obligation	\$6,818,733	\$7,948,145	\$8,416,107	\$8,887,266
Funded Status	(\$4,788,953)	(\$5,435,622)	(\$5,674,412)	(\$6,174,900)
Percentage Funded	29.77%	31.61%	32.58%	30.52%

Source: OAG analysis of Illinois International Port District Financial Statements.

According to the District's audited financial statements, as of December 31, 2011, the District's projected pension benefit obligation was \$8,887,266. The unfunded status of the

pension plan was \$6,174,900 as of December 31, 2011 (see Exhibit 3-7). As can be seen in the exhibit, in 2011, the District reduced its pension contribution significantly (from \$287,142 in 2010 to \$159,542 in 2011). According to responses received from the District, the annual review of the contributions made to the pension plan by the Board was analyzed in context of the District’s annual budget, its pension obligations, and related factors. The Board determined that the amount contributed in 2011 was adequate and appropriate in light of its analysis. The District’s pension plan as of 2011 was only funded at 30.52 percent.

We sampled three pension contributions as part of the 50 expenditures selected for testing. These three pension contributions (checks written to the Illinois International Port District Pension Plan) totaled \$168,500 and none of the contributions included support regarding those covered by the pension.

EMPLOYEE BENEFITS	
RECOMMENDATION 11	<i>The District should reassess its insurance and pension needs and should consider covering only employees of the District and charging those employees a portion of those costs.</i>
DISTRICT RESPONSE	<p>The Board of Directors routinely reviews its pension and insurance needs. The Board annually makes contributions to the pension fund. Furthermore, the Board reviews, plans, and makes reasonable, rational changes when appropriate.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Auditor Comment #13</u></p> <p><i>As shown in Exhibit 3-7, the District’s contributions to its pension plan have not adequately funded the plan, which was 30.52% funded in 2011. The auditors hope that, as stated in its response, the Board will make “reasonable, rational changes” when appropriate to its pension plan.</i></p> </div>

PROPERTY CONTROL

The District does not maintain a comprehensive listing of property and property is not tagged when purchased or tracked. We were able to obtain an asset listing from the District. It was for accounting purposes supporting the calculation of depreciation. This asset listing lacked specifics about individual pieces of property, the location of the property, and who it is assigned to, or an inventory number for tracking the property.

According to District officials, for purchases such as vehicles and computers, the Executive Director discusses with the Board and the proper Committee and presents them an estimate. The Board discusses and directs the staff with a not-to-exceed amount to authorize the purchase. For major expenses it is customary to obtain three quotes and then the Committees may or may not direct the staff to negotiate a better deal or accept a quotation.

Another issue related to equipment expenditures is how equipment for the golf course is processed and approved. The golf course is operated by employees of ServiScape and the

District pays ServiScape for the labor. The District also reimburses ServiScape for equipment purchases of maintenance equipment. We found six pieces of equipment including sprayers, spreaders, and excavators totaling \$131,429 added to the District inventory in April and May 2011. The vendor is listed as ServiScape. We sampled a ServiScape expenditure in May 2010 for \$171,409 and found that it included \$79,381 for the purchase of three Groundmaster 3500 mowers. It is unclear whether these purchases were competitively bid. The District’s contract with ServiScape ended effective December 31, 2012. KemperSports has now been hired to manage Harborside and the fundamental agreement has changed so that the District receives guaranteed payments from the contractor rather than paying the contractor to perform management.

If District contractors are purchasing the equipment and simply billing the District for it, it may not be in the best interest of the District. This also may allow the District to circumvent purchasing and approval requirements such as getting the Board’s approval.

PROPERTY CONTROL	
RECOMMENDATION 12	<i>The District should establish a property control system that includes tagging and tracking of property. The District should also ensure that equipment purchases are competitively bid.</i>
DISTRICT RESPONSE	The IIPD agrees and, for this reason, a policy was implemented to tag and track equipment purchased since January 1, 2012.

Take Home Vehicles and Gas Cards

According to information provided by the District, as of October 2012 the District had gas cards with two different companies. In total, the District had 10 gas credit cards assigned to five different employees. We reviewed three gas card expenditures in 2010 and 2011. No receipts for gas or other purchases were included with the expenditures tested. There were questionable charges on the gas cards for the expenditures sampled. For instance, a March 2011 bill for one card showed four gasoline purchases and four wash and waxes were purchased during a two week period. For one of the other expenditures we sampled there were two gas purchases within a two-day period. Because there were no detailed mileage logs with information such as beginning and ending mileage, and destinations, we were unable to determine if the gas purchases were appropriate.

Even though some of these gas cards are assigned to individuals with take-home vehicles, none of the cards was utilizing the controls that are available with a fleet card. Although, according to District officials none of the gas cards was a fleet card, an April 2011 gas card bill sampled showed that the card was a fleet card. However, the management control features of the card were not being utilized, such as vehicle and driver management reports. The use of fleet cards would allow the District to more closely track gas purchases and mileage driven by each card holder.

According to information provided by the District, it owns six vehicles (3 cars and 3 trucks). All of the vehicles are 2008 or older and have 70,000 or more miles. Of the seven employees at the District, four have a take home vehicle. Take home vehicles are provided to the Executive Director, Director of Maintenance, and both golf pros. Auditors were not able to obtain evidence that employees that were assigned a take home vehicle maintained mileage logs.

One District employee submits mileage logs in order to receive reimbursement. We reviewed mileage reimbursements for one month in 2010 and one month in 2011 for this employee. The logs lacked details such as the time or purpose of the trip. One of the two mileage logs was not dated or signed/approved by the employee’s supervisor.

Information provided by the District also shows that this employee has two vehicles and two gas cards assigned to him. Even though this employee has two vehicles assigned to him and two gas cards, he received monthly reimbursements for mileage in 2010 and 2011 totaling \$19,720. According to District officials, these two vehicles are not in service and are not safe/available for use.

Because employees with assigned vehicles did not submit mileage logs, we could not determine if the vehicles were being used for commuting purposes. Employer provided vehicles that are used by employees for commuting purposes may be subject to federal income taxes for each day they are used for commuting (Federal Treasury Regulation §1.61-21(f)(3)).

FLEET CARDS AND MILEAGE LOGS	
RECOMMENDATION 13	<i>The District should issue fleet cards to all employees with take home vehicles and should require mileage logs to be submitted by all employees assigned a vehicle, so that vehicle use can be more effectively monitored. Mileage logs should also be dated, signed, and approved by the employees’ supervisor.</i>
DISTRICT RESPONSE	<p>Of the two vehicles currently being utilized by the District, both operators have been instructed to report monthly mileage to be included in the long standing maintenance logs of the vehicles.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Auditor Comment #14</i></p> <p><i>In 2011, four employees had take home vehicles, of which two were golf pros.</i></p> </div> <p>Federal Treasury Regulation §1.61-21(f)(3), which states that employer provided vehicles that are used by employees for commuting purposes are subject to federal income taxes for each day they are used for commuting, has an exception for employees who are always “on call”. These two employees in question are currently first responders for Homeland Security as well as all emergencies. Therefore they are exempt from the above Treasury Regulation.</p>

TELECOMMUNICATIONS SERVICES EXPENDITURES

The District has twelve business telephones (landlines) at the port offices and six cell phones and two pagers assigned to employees of the District. The Executive Director has two cell phones, both golf professionals each had one, and the two maintenance employees each are assigned a cell phone. Each of the maintenance employees is also assigned a pager. All of the cell phones have the maximum coverage, and they are all on one plan. The District is able to receive a government discount on its plan.

We reviewed an August 2011 telecommunications expenditure for phone service that included 12 business lines to the District Office for June 29 - July 28, 2011, and 53 lines to Harborside Golf Center for July 8 - August 7, 2011. The total for the two bills was \$4,102. During the audit period, the District paid a total of \$66,944 to the company providing business phone service to the District office and golf course.

In January 2013, the District signed an agreement with a sports management company (K.S. Harborside LLC) to operate Harborside Golf Center. The District provided documentation to show that in January 2013, the existing contract for telephone service was transferred for the telecommunication expenditure we sampled that contained 53 lines. Although the District has reduced the number of telephone lines, it should review the number of lines that are needed at the District office.

TELECOMMUNICATIONS NEEDS	
RECOMMENDATION 14	<i>The District should assess its telecommunications needs in order to reduce the number of lines and costs.</i>
DISTRICT RESPONSE	The IIPD agrees. As of January 1, 2013, the District staff completed a review which reduced the number of lines and costs to the District dramatically.

Chapter Four

PORT MANAGEMENT

CHAPTER CONCLUSIONS

The Illinois International Port District operates as a “landlord” and as such leases land, buildings, and docks to private operators. We reviewed lease information for primary tenants of the District as of August 2012. From our review we concluded that the District:

- Did not have written leases with all tenants (5 of 25);
- Has not kept leases up-to-date in some cases to reflect current arrangements (2 of 25);
- Allowed lease agreements to expire but continue in holdover without renegotiating the terms of the leases, in some cases for several years;
- Did not monitor leases to ensure compliance with terms;
- Did not have information regarding subleases;
- Did not date stamp rent payments and receipts when received; and
- Did not have controls in place to monitor the collection of fees including receiving tonnage reports and conducting record reviews of tenants.

The District had few written policies and procedures, and those that did exist needed updating. The District’s policies that govern the use of port facilities and services, including the rates charged for dockage and wharfage, have not been updated in 30 years (April 1983). In addition, other critical areas of operations including leasing and contracting did not have written policies.

TENANT LEASES

The Illinois International Port District operates as a “landlord” and as such leases land, buildings, and docks to private operators. According to information provided by the District, as of August 2012, the District had a total of 25 primary tenants, not including subtenants and assignees. We requested lease information and conducted site visits to the District in an effort to obtain copies of all lease agreements, amendments, and lease extensions related to these tenants. Some of the current leases date back to the 1960s. The Act requires that:

Any public warehouse or other public storage facility owned or otherwise controlled by the District shall be operated by persons under contracts with the District. (70 ILCS 1810/5.01)

For 5 of the 25 tenants, we were unable to locate a lease or written agreement during the audit. For four tenants, we could not find a written agreement (All Star Fence, Areatha Construction Co., Chicago Fire Department, and Rausch Construction Inc.). Another expired in 1997 and did not contain renewal provisions (Chicago South Shore and South Bend Railroad). When we followed up with the District, they were unable to provide the missing or updated leases.

In addition to not having current written leases for some tenants, there were others for which the leases obtained did not reflect current operations. We reviewed lease payments for 2010 and 2011 and found payments for parcels of land and building space that were not contained in the lease agreement information for two tenants.

- Metal Management Midwest, Inc. (Sims) - Payments were for two parcels (30.512 acres and 13 acres). However, the lease assigned to them only covers 15.512 acres. According to District officials, per Board action in 2001, staff was directed to increase Metal Management’s area from 15.512 acres to a total of 43.512 acres. However, the lease was never amended to reflect the change.
- Windy City Warehouse/Abatement - Payments were for four warehouse spaces. However the lease did not include a total of 64,000 square feet (56,000 sq. ft. - Quad #4 and 8,000 sq. ft.- Quad #3) for which the tenant was paying rent. According to District officials, this tenant expansion was done as per a directive by the Board on August 17, 2007. However, the lease was never amended to reflect the change.

Written lease agreements can serve to reduce problems between the landlord and tenant by establishing the responsibilities of each, the amount of rent, and when rent is due. Also, without up-to-date written lease agreements, the District may not be maximizing the amount of income from these properties.

TENANT LEASES	
RECOMMENDATION 15	<p><i>The District should:</i></p> <ul style="list-style-type: none"> • <i>Establish written leases with all primary tenants; and</i> • <i>Update leases to reflect current operations.</i>
DISTRICT RESPONSE	<p>The Board at this time is reviewing proposals regarding the possibility of a master lease structure at the District. That process will likely moot this issue by transferring this responsibility to a private operator.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Auditor Comment #15</i></p> <p><i>Simply transferring responsibilities to a private operator does not obviate the Board’s responsibility to ensure that leases are enacted and updated.</i></p> </div> <p>The following shows the Board’s legal parameters for lease negotiations:</p> <p>It is the legal opinion of the General Counsel that the Port District is not required by law to advertise and competitively bid ground leases for vacant, unimproved land.</p>

<p>District Response (continued)</p>	<p>Our opinion is based upon the following statutes:</p> <ol style="list-style-type: none"> 1. The Illinois International Port District Act, (70 ILCS 1810/1 <i>et seq.</i>) 2. The Illinois Municipal Code (65 ILCS 5/1-1-2 <i>et seq.</i>). <p style="text-align: center;">ILLINOIS INTERNATIONAL PORT DISTRICT ACT</p> <p>The Port District is an Illinois Municipal Corporation created by the Illinois Legislature in 1955. The powers and duties of the Port District are defined in its enabling act printed at (70 ILCS 1810/1 <i>et seq.</i>). (Section 5.02) of the Act requires the Port District to advertise and competitively bid all leases and other contracts for the operation of its public warehouses and public grain elevators constructed prior to August 6, 1963.</p> <p style="padding-left: 40px;">"All leases or other contracts for operation of any public warehouse or public grain elevator to which this Section is applicable owned or otherwise controlled by the District which are entered into on or after July 1, 1955 shall be governed by the following procedure: Notice shall be given by the District that bids will be received for the operation of such public warehouse or public grain elevator..." (70 ILCS 181/5.02)(Emphasis added).</p> <p>The public advertisement and competitive bid process described in (Section 5.02) applies only to the Port District's public warehouses and public grain elevators constructed prior to August 6, 1963. The public advertisement and competitive bid process does not apply to any other Port District structure. This is clear from the final sentence in (Section 5.02):</p> <p style="padding-left: 40px;">"This Section applies only to structures in existence on the effective date of this Amendatory Act of 1963. It does not apply to warehouses and grain elevators on which construction is completed after such date." (Emphasis Added).</p> <p>Similarly, vacant land leases are not subject to the public advertisement and competitive bid process described in (Section 5.02). (Section 7) of the Port District Act confirms this:</p> <p style="padding-left: 40px;">"Also, the District, subject to the public bid requirements prescribed in section 5.02 [Par. 156.2J in respect to public warehouses or public grain elevators, may lease to others for any period of time, not to exceed 99 years, upon such terms as its Board may determine, any of its real property, rights of way or privileges, or any interest therein, or any part thereof, for industrial, manufacturing, commercial or</p>
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<p>District Response (continued)</p>	<p>harbor purposes, which is in the opinion of the Port District Board no longer required for its primary purposes in the development of port and harbor facilities ... and such leases may contain such conditions and retain such interest therein as may be deemed for the best interest of the District by such Board. " (70 ILCS 1810/7).</p> <p>The fact that the legislature specifically limited advertisement and competitive bidding and to the Port District's grain elevators and public warehouses and to no other Port District structure, facility or properties reinforces the legal conclusion that the Port District is not required to advertise and publicly bid leases for vacant real estate.</p> <p>This conclusion is supported by and consistent with established Illinois case law as cited in the case of <i>People vs. Daley</i>, 22 Ill.App.2d 87, 159 N.E.2d 18 (1959):</p> <p style="padding-left: 40px;">"In the absence of some statutory provision, competitive bidding is not an essential prerequisite to the validity of contracts by and with public bodies. A statute requiring bids is "restrictive" and will not be extended beyond the language used. The court must take the statute as it finds it. It can neither add to, nor subtract from it. It is the court's duty to construe it as it stands." Id. at 20.</p> <p>The restrictive language of (Section 5.02) and (Section 7) of the Port District Act limits advertisement and public bidding of leases to public grain elevators and warehouses constructed prior to 1963; it does not apply to the Port District facilities constructed after 1963 or to its unimproved land.</p> <p style="text-align: center;">ILLINOIS MUNICIPAL CODE</p> <p>The Illinois Municipal Code does not apply to the Illinois International Port District. By definition the Port District is not a municipality subject to the provisions of the Illinois Municipal Code:</p> <p style="padding-left: 40px;">"Municipal or Municipality does not include a township, town when used as the equivalent of a township, incorporated town which superseded a civil township, county, school district, park district, sanitary district, or any other similar governmental district." (65 ILCS 5/1-1-2)</p> <p>In addition, Section 27 of the Port District Act provides that the Illinois Municipal Code is subordinate to the provisions of the Port District Act and to the extent that the Acts conflict or grant substantially the same powers, the Port District Act controls.</p> <p style="padding-left: 40px;">"The provisions of the Illinois Municipal Code, as heretofore and hereafter amended, shall not be</p>
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<p>District Response (continued)</p>	<p>effective within the area of the District insofar as the provisions of said act conflict with the provisions of this Act or grants substantially the same powers to any municipal corporation as are granted to the District by this Act." (70 ILCS 1810/27).</p> <p>Section 7 of the Port District Act provides the Port District may lease its real estate to others for any period of time, not to exceed 99 years, upon such terms as the Board deems to be in the District's best interest. Section 7 gives the Port District the power to lease its vacant land without advertising and bidding. Therefore the advertisement and competitive bidding requirements described in (65 ILCS 5/11-76-2) do not require the Port District to advertise and competitively bid leases for its vacant land. <i>People vs. Daley, supra.</i></p> <p style="text-align: center;">CONCLUSION</p> <p>We have reviewed the Port District Act and The Illinois Municipal Code. Under these statutes the Port District is only required to advertise and competitively bid contracts or leases for the operation of its public warehouses and grain elevators constructed prior to 1963. Leases and contracts for the operation of:</p> <ol style="list-style-type: none"> 1. Port District facilities other than grain elevators and public warehouses, 2. Port District grain elevators or public warehouses constructed after 1963, or 3. Vacant, unimproved land <p>are not subject to the advertisement and public bid requirements specified in the above statutes.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Auditor Comment #16</u></p> <p><i>While the Port District Act only requires competitive bidding for certain types of purchases, it does not prohibit competitive procurement in other purchases. Competitive procurement is generally considered to be good public policy and helps promote transparency in government operations.</i></p> </div>
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Lease Holdovers

Several leases that were reviewed contained a holdover provision in which the lease agreement could continue in effect even though an extension had not been signed. We identified three leases that contained holdover provisions and were in holdover for years (Nidera - Chicago & Illinois River Marketing, LLC expired in 2000, Reserve Marine Terminals expired in 2005, and S.H. Bell requested holdover in 2006 prior to lease expiration). One of these tenants (Reserve Marine Terminals) signed a new lease effective May 2012. Another tenant, S.H. Bell, requested that it be allowed to utilize the holdover provision in its lease in 2006 rather than extend the lease to 2009.

A third tenant (Nidera - Chicago & Illinois River Marketing) purchased a District tenant (Continental Grain) in 1999 and assumed their lease. The lease expired in 2000 and has been in holdover since then. By allowing the lease to remain in holdover without renegotiating the terms for 13 years, the District may have lost potential revenues.

Allowing tenants to utilize holdover provisions may not always be in the best interest of the District, especially if the rent is below market value. Also, allowing tenants to utilize holdover provisions means that the tenant is simply on a month-to-month basis with the District without a commitment. If an extension or new lease is signed, the District could move undervalued leases closer to market price.

Lease and Sublease Assumption/Assignments

Leases contain provisions for assuming or reassigning the lease to the new owner when a tenant company of the District is purchased by another company. These provisions in the leases require the District’s Board to agree to the assumption or assignment. However, in some cases, lease terms can be very favorable to the new owner and assumption or assignment may not be beneficial to the District.

For instance, the District initially signed a 66-year lease with Bulk Terminals Company (n/k/a Stolthaven Chicago, Inc.) commencing on July 1, 1960, and ending on June 30, 2026, for the 177 acre property at 12200 S. Stony Island Avenue. In November of 2001, Kinder Morgan Liquids Terminals LLC purchased the lease for \$10. Even though the maximum rent level had been reached in 1995, and would not change for the next 25 years, the Board agreed to the assumption/assignment of the lease. In the Assignment and Assumption of Leasehold Interest agreement, the only additional charge to Kinder Morgan was for legal and consulting fees up to \$10,000. Several other current leases have also been assumed or assigned from the original tenant to a different tenant.

The consent for assignment and assumption with Kinder Morgan requires that any subleases and reassignments must be approved by the Board. Subleases can also present an opportunity for the District to benefit financially. For instance, in late 2012, the District was able to negotiate a sublease reassignment for the sum of \$475,000.

LEASE HOLDOVER, ASSUMPTION, AND ASSIGNMENT	
RECOMMENDATION 16	<i>The District should consider updating and signing lease agreements with those tenants currently utilizing holdover provisions in their leases or seek out new tenants. The District should ensure that any new lease agreements are at market rates. The District should also consider utilizing lease and sublease assumptions and assignments as an opportunity to renegotiate lease terms in the future.</i>

DISTRICT RESPONSE	<p>The Board at this time is reviewing proposals regarding the possibility of a Master Lease structure at the District. That process will likely moot this issue by transferring this responsibility to a private operator.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><u>Auditor Comment #18</u></p> <p><i>Simply transferring responsibilities to a private operator does not obviate the Board's responsibility to ensure that leases are managed properly and effectively.</i></p> </div>
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Compliance with Lease Terms

The District did not ensure that tenants complied with the terms of their lease agreements. Examples of compliance issues related to lease terms included:

- Not submitting certified annual statements of gross revenues;
- Not submitting car counts;
- Not submitting monthly tonnage reports;
- Not submitting a certified statement of dockage/wharfage; and
- Not maintaining a current certificate of insurance on file with the District or having inadequate insurance to meet lease requirements.

In one instance, the District made efforts to get a tenant to comply with terms of its lease. This tenant's agreement required it to dredge and maintain the slip to 27 feet. The tenant did not comply with this provision of the agreement and it has become the subject of litigation.

COMPLIANCE WITH LEASE TERMS	
<p>RECOMMENDATION</p> <p style="font-size: 2em;">17</p>	<p><i>The District should monitor lease agreements to ensure that tenants are complying with terms.</i></p>
DISTRICT RESPONSE	<p>The IIPD agrees. The District has directed staff to review and ensure compliance with lease terms and will continue to monitor leases.</p>

Subtenants and Assignments

We were not able to obtain copies of subtenant leases because these agreements are not maintained in the District's lease files. According to a strategic report commissioned by the District, Kinder Morgan had subleased 11 different parcels to 6 subtenants and another tenant also had subleased property or facilities. Because the District does not maintain agreements between the primary tenants and subtenants on file, the District does not know if the primary tenant is profiting from these arrangements. Some primary tenant leases we reviewed contained a provision which required the primary tenant to pay to the District any amount from subleasing portions of its leased premises that are greater than the amount of the primary tenant's rent.

One company doing business at the District (Interstate Steel) was neither a subtenant nor a primary tenant. Although the District initially listed it as a tenant, we later determined that this company had an agreement with one of the District’s primary tenants to have part of the primary tenant’s (Dockside Development/Emesco) parcel assigned to them. As part of the agreement, the company assigned the parcel agreed to pay a \$20,000 annual fee to the District even though they have no agreement directly with the District. When we asked the District officials about the relationship they responded that Interstate Steel does not have a lease but rather an assignment on a parcel of Emesco (Dockside Development).

SUBLEASES	
RECOMMENDATION 18	<i>The District should require all subleases to be filed with and approved by the District.</i>
DISTRICT RESPONSE	The District stopped allowing the ability to sublease with new tenants several years ago; however, older leases which allowed subleases do not require filing a copy with the District. The Port will continue to review all subleases and assignments as per lease documents.

Collection of Lease Income and Rent

The District leases and rents both land and buildings (transit sheds and warehouses) to tenants at the port. According to the District’s financial statements, land lease revenues for 2010 and 2011 were \$1,281,347 and \$1,152,445, respectively. Revenues from transit sheds and warehouses for 2010 and 2011 were \$1,779,985 and \$2,190,452, respectively.

We reviewed lease payments and found that four tenants made no rent payments during 2010 and 2011. Three of these were railroad companies. One of these companies (Norfolk Southern) did not make any payments from 2008 through 2011. In late 2011 a settlement was reached and the company paid \$110,356 to the District. According to District officials, the lease was being renegotiated and was discussed at Board meetings.

As part of our review of leases, we reviewed payments and invoices for tenants for 2010 and 2011. Although in 2010 the District was sending invoices to tenants for rent due at the end of each month prior to the month due, in April 2011 the District began sending invoices to tenants on the first of the month in which the payment was due. In many cases, rent is due on the first of the month.

In February 2011, the District stopped date stamping rent payments and receipts as they were received. Because payments were not date stamped when received, we could not determine if payments were made in a timely manner.

RENT PAYMENTS	
RECOMMENDATION 19	<i>The District should ensure that payments and receipts are date stamped when received.</i>
DISTRICT RESPONSE	The IIPD agrees. The District previously established a process for invoicing tenants in a timely manner. All payments and receipts are currently date stamped.

Collection of Wharfage, Dockage, and Other Fees

In addition to paying rent, some tenants are required to pay license fees, operation fees, rail fees, and/or dockage and wharfage fees based on agreements within the contracts. Tenants are on varying payment cycles (monthly, quarterly, or annually). The basis of payment may also vary. For example, Chicago Rail Link is required to pay the District an annual fee based upon loaded cars. Norfolk Southern Railroad pays the District an annual operation fee for its use and operation over the tracks.

As a condition of their leases, some tenants must report tonnage volumes. For instance, NASCO’s agreement states:

Section 504. Reports and Payments. Licensee shall furnish Licensor within thirty (30) days following the end of each month during which Licensee renders Services at the Licensed Area a "Tonnage Report" showing the types and amounts of cargo handled by Licensee during such month and computing the licensee fee due for such month. It shall also include any tonnage handled at the facility for rail and truck movements. At or prior to the due date of each monthly Tonnage Report, Licensee shall pay the actual wharfage and dockage or alternative fee according to the above rates. On the last month of the year, if that year's current minimum guarantee amount has not been reached, the difference will be paid immediately with last month's payment.

Tenants must submit payments for tonnage if required by their leases. For 2010 and 2011, dockage and wharfage revenues were \$685,601 and \$726,443, respectively.

Items including dockage, wharfage, and tonnage are self-reported. Tenants are responsible for sending the District tonnage reports showing the amount of cargo they have moved. According to District officials, the staff uses these tonnage amounts to prepare an annual report of tonnage. Some agreements include the option for the District to audit or review records of the tenant.

During our lease testing we found tenants that reported annual tonnage that did not pay dockage or wharfage. For example, Chicago Rail Link did not make a payment to the District in 2010 or 2011. According to District officials, Chicago Rail Link did not pay any fees because it did not move any cargo through the port in 2010 or 2011. Tonnage reports show that they moved 765 tons of cargo through the port in 2010 and 11,570 tons of cargo in 2011.

We identified seven other tenants that reported annual tonnage but paid no fees. According to District officials these tenants did not pay fees for dockage or wharfage because the tonnage report lists all cargo movement but does not represent maritime tonnage through the Port District and is more of a reflection of volumes rather than wharfage and dockage. However, six of the seven tenants reported “marine only” tonnage.

We also asked District officials if they could provide any record inspections or reviews either conducted by the District or submitted by a tenant for 2010 and 2011 to verify or check wharfage or dockage. The District was only able to provide reviews pertaining to maintenance issues at the Port.

The District allowed one tenant (Norfolk Southern Railroad) to remove the requirement for submitting rail car counts to the District when it renegotiated the agreement in 2011. Although the requirement to submit monthly car counts was eliminated, there is a provision for the Port to annually require a car count. However, the District must request it in writing and it can be no more than once every 12 months.

Without monthly reports from tenants related to tonnage, dockage, and wharfage, the District cannot reconcile the amount of fees paid with the amount of cargo moved. Also, if the District does not conduct periodic inspections of records to verify the self-reported numbers for tonnage, dockage, and wharfage are accurate, the District cannot ensure that it is receiving all fees due and payable.

TONNAGE REPORTS AND RECORD REVIEWS	
RECOMMENDATION 20	<i>The District should require all tenants to submit periodic reports regarding tonnage, dockage, and wharfage. In addition, the District should conduct periodic inspections of tenant records to verify reported amounts.</i>
DISTRICT RESPONSE	The IIPD agrees. The District has implemented procedures by which those tenants not submitting monthly reports are being asked to comply. In addition, staff will make inspections of tenant records to verify amounts reported.

Rates, Rules, Regulations and Procedures

The District had few written policies and procedures and those that did exist needed updating. The District’s policies that govern the use of port facilities and services, including the rates charged for dockage and wharfage, have not been updated in 30 years (April 1983). Other policies provided by District officials for personnel and purchasing also had not been updated recently. The purchasing policy provided was dated February 1986 and the personnel policy provided was dated October 1996. In addition, other critical areas of operations including leasing and contracting did not have written policies.

The District’s manual, titled “PORT TARIFF RATES, CHARGES, RULES & REGULATIONS Governing Use of Facilities and Services,” contains the rates to be charged to vessels doing business at the port, including dockage and wharfage. The manual has an effective date of April 1, 1983, which is over 30 years ago. Furthermore, the definitions and the rules and

regulations section in the manual have not been updated since April 1, 1981. The rates and charges section was last updated October 23, 1981.

We compared various statistics of the Illinois International Port District with the Port of Burns Harbor - Indiana, the Port of Milwaukee, and the Port of Cleveland. We found that the tariff rates and the rules and regulations for procedures at the District had not been updated since 1983. Comparatively, the rules and regulations procedures were last updated at Burns Harbor - Indiana, the Port of Cleveland, and the Port of Milwaukee in July 2006, May 2012, and April of 2012, respectively (see Exhibit 4-1).

Additionally, the Port of Burns Harbor - Indiana charged \$.06 per day per gross registered ton in dockage fees, while the Port of Cleveland charged \$.09 per day per gross registered ton for self-propelled vessels, and \$.06 per day per gross registered ton for passenger ships and ferries. The Port of Milwaukee charged between \$173 and \$1,060 per day, depending on the length of vessel. The District charges \$.04 per gross registered ton per day. The rates charged for wharfage ranged from \$.25 per ton, or 40 cubic feet, to \$2.50 per metric ton for the ports of Milwaukee, Cleveland, and Burns Harbor - Indiana. The District charges a wharfage fee of \$.15 - \$.30 per ton or 40 cubic feet. The rates charged for dockage and wharfage are generally the lowest when compared to the other ports in Exhibit 4-1. These rates have remained unchanged since at least 1981.

Exhibit 4-1 COMPARISON OF PORT OPERATIONS			
	Dockage Charges	Wharfage Charges	Manual Last Updated
Illinois International Port District	\$.04 per gross registered ton¹ per day	\$.15 - \$.30 per ton² or per 40 cubic feet	April 1, 1983
Burns Harbor - Indiana	\$.06 per gross registered ton ¹ per day	\$.25 - \$1.10 per ton ² or per 40 cubic feet	July 1, 2006
Port of Cleveland	\$.06 - \$.09 per gross registered ton ¹ per day	\$.35 - \$.80 per metric ton ³	May 1, 2012
Port of Milwaukee	\$173 - \$1,060 per day or fraction thereof based on vessel length	\$.35 - \$2.50 per metric ton ³	April 1, 2012
Notes: ¹ Gross Registered Ton is a unit of measurement equal to 100 cubic feet. ² Here, ton refers to 2,000 pounds. ³ A metric ton is equal to 2,204.6 pounds. Source: OAG analysis of other ports' information.			

The District's dockage and wharfage rates are lower than other comparable ports, which could result in lower revenue. The District should update its tariff rates, charges, rules and regulations handbook in order to ensure that the rates being charged are in line with the rates that other comparable ports are charging, and to also ensure that pertinent definitions are up to date.

The District should also review the rules and regulations section of the handbook and make any necessary changes regarding homeland security.

PORT POLICIES AND PROCEDURES	
RECOMMENDATION 21	<i>The District should update the rules and regulations for use of the port and should establish written policies for leasing and contracting.</i>
DISTRICT RESPONSE	<p>The IIPD takes this recommendation seriously. The Board reviews and updates these policies and procedures when necessary; however the Board is currently investigating a master lease which would moot this recommendation by transferring this function to a private operator.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Auditor Comment #21</u></p> <p><i>Simply transferring responsibilities to a private operator does not obviate the Board's responsibility to ensure that adequate policies and procedures exist regarding the leasing of its facilities.</i></p> </div>

Foreign Trade Zone Fees

A foreign-trade zone (FTZ) is a designated location in the United States where companies can use special procedures that help encourage U.S. activity by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings. As Grantee of FTZ#22, the Illinois International Port District accepts applications for potential FTZ sites within Cook, Lake, McHenry, Kane, DeKalb, DuPage, Will, Kendall, and Grundy counties. The District collects fees from its operation of FTZ#22. FTZ fees collected for 2010 were \$234,628 and \$204,943 for 2011.

Chapter Five

PERSONNEL MANAGEMENT

CHAPTER CONCLUSIONS

As of August 2012, the Illinois International Port District had a total of seven employees. The seven employees included an Executive Director, Executive Assistant, Administrative Assistant, Maintenance Supervisor, Maintenance Director, and two Golf Professionals. All seven were full-time employees. As of August 2012, these employees had a combined salary of \$722,400. The District's 2010-2011 financial statements showed that staff salaries, and benefits for District staff and Board members, totaled \$1,407,029 for 2011 and \$1,519,104 for 2010.

In our review of personnel management at the District we found that:

- The District's Personnel Manual and job descriptions are outdated;
- Personnel files lacked critical information including applications for employment, current employee salaries, and annual performance evaluations;
- Job descriptions did not exist for some positions;
- The District does not have a formal timekeeping system; and
- Although his employment contract only provided for payment of accrued vacation days at the conclusion of the agreement, we found that the Executive Director was compensated for 68 vacation days in 2010 and 58 vacation days in 2011. According to information provided by the District's Treasurer, this amounted to **\$50,828 and \$44,871 for 2010 and 2011, respectively, in payments in addition to his annual salary. The Executive Director's salary effective January 1, 2011, was \$201,144.72.**

PERSONNEL MANAGEMENT

As of August 2012, the Illinois International Port District had a total of seven employees. The seven employees included an Executive Director, Executive Assistant, Administrative Assistant, Maintenance Supervisor, Maintenance Director, and two Golf Professionals. All seven were full-time employees. As of August 2012, these employees had a combined salary of \$722,400. The District's 2010-2011 financial statements showed that staff salaries, **including benefits** for District staff and Board members, totaled \$1,407,029 for 2011 and \$1,519,104 for 2010.

Personnel Policies

The Personnel Manual initially provided by the District was not dated. However, the title of the document was the "Chicago Regional Port District Personnel Manual." The name of the District was changed in 1985 from the "Chicago Regional Port District" to the "Illinois International Port District." Therefore, the personnel manual initially provided was most likely for the period prior to 1985. When we asked District officials the date of the manual, **District officials provided a different Personnel Manual dated October 1996. Therefore, the manual has not been updated in approximately 16 years.**

Job Title Descriptions

The District provided job descriptions with the 1996 Personnel Manual. Although undated, the job descriptions contained the seal of the “Chicago Regional Port District.” **Therefore, the job descriptions provided were created prior to 1985 and were out of date.** For instance, none of the job descriptions list the duties or responsibilities for a Facility Security Officer (FSO) that was created by federal Homeland Security requirements. For 3 of 7 employees, we could not find a job title description that would show the employee’s responsibilities that matched the title listed in the salary information or organization chart provided by the District.

Annual Performance Evaluations

The 1996 Personnel Manual does not require annual evaluations of employees. The Personnel Manual states that “Performance evaluation will be conducted for all employees at an employee’s request, if necessary” (emphasis added). Without annual performance evaluations, it is unclear how employee performance is being assessed. Of the seven personnel files we reviewed, 6 contained no performance evaluations. The initial personnel manual provided by the District required annual performance evaluations of all employees. Performing annual performance evaluations are also an accepted good business practice.

PERSONNEL POLICIES	
RECOMMENDATION 22	<i>The District should update its personnel policies and job title descriptions for District employees. The District should also require annual performance evaluations of all employees.</i>
DISTRICT RESPONSE	The IIPD agrees. The District will implement a more formal review for its future performance evaluations of employees.

Timekeeping System

The District does not have a formal timekeeping system. Employees are not required to track the time when they arrive and leave work and do not submit timesheets showing the hours worked. The District’s Executive Director stated that when the District had a higher number of employees time was tracked, but that was at least five or six years ago. The District provided leave request forms and annual time-off reports to show when employees were not at work. According to District officials, employees must submit a leave request form if they want to take time off.

The 1996 Personnel Manual provided by the District requires proper timekeeping and that “Each employee must sign the time sheet or punch their time card at the start and end of each work day, entering the exact time on each occasion of his arrival and departure from the office” (Section III.E.). The manual also states that “All deviations from working hours, such as sick leave, must be properly noted so that the normal working hours are accounted for.” It further states that “the Payroll Clerk will mark employee’s time sheets or time cards with the appropriate code used for vacation, sick-leave, etc.” Although the District’s Personnel Manual

discusses a “Payroll Clerk” who has the responsibility of marking employee timesheets with appropriate codes used for vacation and sick-leave, we could not identify an employee with the title “Payroll Clerk” at the District or a job description that included these duties.

Without a formal timekeeping system the District cannot ensure that employees are working required hours and time off is accurately tracked.

TIMEKEEPING SYSTEM	
RECOMMENDATION 23	<i>The District should establish a formal timekeeping system for employees of the District.</i>
DISTRICT RESPONSE	The IIPD agrees. The District has implemented a more detailed system to comply with this recommendation. The District now has a formal timekeeping system in place. All Port District employees are salaried, and “absence reporting” for the small staff adequately tracks time.

Accruing Sick and Vacation Days

According to the 1996 Personnel Manual provided by the District, employees must use all time by the end of each year and are not allowed to carry over sick or vacation time. Employees are allowed to accumulate compensatory time and the manual requires that the Payroll Clerk will maintain a log of authorized overtime worked by all employees and the use of compensatory time.

The only District employee that is allowed to accrue vacation days is the Executive Director. The Executive Director’s contract effective January 18, 2008, through January 18, 2013, allows him to accrue 30 days of vacation each year and for unused days to be compensated at the conclusion of the agreement. Although his employment contract only provided for payment of accrued vacation days at the conclusion of the agreement, we found that the Executive Director was compensated for 68 vacation days in 2010 and 58 vacation days in 2011. According to information provided by the District’s Treasurer, this amounted to **\$50,828 and \$44,871 for 2010 and 2011, respectively, in payments in addition to his annual salary. The Executive Director’s salary effective January 1, 2011, was \$201,144.72.**

The Executive Director did not use any vacation days in 2010. Although the Executive Director’s employment contract does not include provisions for accruing or using compensatory time, he used two compensatory days in 2010 for days he was not at work. District officials could not provide documentation to show that this time is tracked. In 2011, the Executive Director used four days of vacation total. Therefore, **for the two-year period 2010-2011, the Executive Director used four days of vacation while he was paid for 126 unused vacation days.**

We inquired whether the annual vacation payouts to the Executive Director were counted as income toward his final salary that his pension would be based upon. According to responses from the District, the annual **vacation payouts to the Executive Director can be considered**

income toward the final salary on which the pension will be calculated if they were distributed in the five years prior to retirement. The final pension compensation is calculated based on the five years prior to retirement, thus, whether the years with vacation payouts factor into his pension depends on when his employment ends.

VACATION PAYOUTS	
RECOMMENDATION 24	<i>The District should either discontinue the practice of annual vacation payouts for the Executive Director or revise his contract to permit such payments.</i>
DISTRICT RESPONSE	<p>In 2010 and 2011, the IIPD Board made a business determination to begin to pay down the Executive Director’s unused vacation time in order to avoid a substantial lump-sum payment. He was entitled to that payment under the terms of the contract that was then in place. Since that contract expired in January 2013, the Executive Director has been an at-will employee, subject to the same District personnel policies as other District employees. The IIPD is examining the question of whether those payments would be included in the Executive Director’s pension calculation.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Auditor Comment #22</u></p> <p><i>Although the Executive Director’s employment agreement provided for payment of unused vacation days, it did not provide for payments while the Executive Director was still employed. Also the District’s response that it is examining whether the vacation payouts would be included in the Executive Director’s pension calculation differs from the response they provided auditors during the audit which was, “the annual vacation payouts to the Executive Director can be considered income toward the final salary on which the pension will be calculated if they were distributed in the five years prior to retirement.”</i></p> </div>

PERSONNEL FILE REVIEW

We reviewed the personnel files for the seven employees as of August 2012, and found a general lack of information. For instance, the job description for the Executive Director requires a bachelor’s degree, but there was no evidence regarding whether he had a degree contained in the personnel files (such as college transcripts or a copy of a diploma). Other issues included:

- Four of seven files had no application for employment.
- Files did not contain current salary information for employees. For three of seven files reviewed, the most recent salary listed was for 1996; for three other files the most recent salary information was for 2003; and one file did not contain salary information.
- One file only contained a single form; a W-4 form.

PERSONNEL FILES	
RECOMMENDATION 25	<i>The District should ensure that a complete personnel file is kept for each employee.</i>
DISTRICT RESPONSE	The IIPD agrees. The District is updating personnel files to comply with this recommendation as appropriate.

Chapter Six

MANAGEMENT OF HARBORSIDE GOLF CENTER

CHAPTER CONCLUSIONS

Harborside is a 458-acre golf facility with two 18-hole golf courses. Harborside also has a practice facility, a golf academy, and a clubhouse with a restaurant. Harborside opened for use in 1995.

Harborside International Golf Center has had net losses each year for the past five years (2007-2011). In 2010 and 2011, Harborside reported operating losses of \$844,386 and \$964,225, respectively.

For the two year audit period (2010-2011), all personnel for golf course operations and maintenance, with the exception of two golf pros, were provided by a contractor (ServiScape). **The District paid this contractor \$2,266,398 in 2010 and \$2,346,657 in 2011.** For the two-year period, 83 percent of the payments made to reimburse the contractor were for maintenance costs while only 17 percent were for operational costs.

We reviewed two expenditures paid to this contractor, one from 2010 for \$171,409 and one from 2011 for \$138,996. Although the District was able to provide supporting documentation for most costs, the documentation for the two expenditures contained:

- A lack of detail for some expenses (for example while a cash register receipt was provided for a \$1,025 Home Depot purchase, the receipt had no detail of what was purchased);
- Questionable expenses including a 401(K) administrative fee for \$313, 401(K) matches for two employees of the contractor for \$386, cell phones for \$128, and items charged to a credit card; and
- A \$1,103 charge for “office support” without any supporting documentation.

In addition, for both expenditures tested we could not find evidence of preapproval of large equipment purchases charged to the District. For instance, the 2010 expenditure totaling \$171,409 included a \$79,381 charge for three mowers. The 2011 expenditure totaling \$138,996 included a \$39,362 charge for an excavator.

The purchasing policies provided by the District require that no agreements, contracts, purchase orders or other obligations involving the expenditure of Port District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until prices for the items or services are obtained from at least three different suppliers or contractors. The expenditures tested contained no evidence of bids for the equipment purchased. In addition, the contract with ServiScape states that “Upon written request from the Port District’s Executive Director, ServiScape shall, subject to the rights of reimbursement pursuant to section 1.11, purchase for the Port District such equipment and materials customarily utilized in the maintenance and operation of golf course facilities.” While the purchases in the expenditures we

reviewed may have been allowable under the terms of the contract, auditors were provided with no evidence to show that the district determined they were necessary or gave prior approval of the purchases. The District signed an agreement with KS Harborside, LLC to manage Harborside Golf Center effective January 2013.

The restaurant at Harborside was also operated by a contractor. We reviewed the contract and payments and found that the contractor was not filing monthly reports and making payments to the District on a monthly basis as was required by the contract. The District collected revenues in 2010 and 2011 of \$213,577 and \$173,784 respectively, for the restaurant.

HARBORSIDE INTERNATIONAL GOLF COMPLEX

Harborside is a 458-acre golf facility with two 18-hole golf courses. Harborside also has a practice facility, a golf academy, and a clubhouse with a restaurant. Harborside opened for use in 1995.

As of August 2012, there were only two employees at Harborside International Golf Complex that were District employees. The two District employees ran the daily operations at Harborside. The rest of the employees of Harborside were employed by the contractors ServiScape and 19th Hole Grill, Inc.

Prior to January 2013, ServiScape was responsible for the maintenance of the golf course facilities and equipment and provided golf course operations personnel for Harborside International Golf Complex. The restaurant, halfway house, and beverage service are provided by the 19th Hole Grill, Inc. The 19th Hole Grill, Inc. is required to provide food and beverage services for Harborside including the main clubhouse buildings and the halfway house. It is also required to provide daily beverage cart service, as well as catering, for outings, special events, tournaments, and banquets. The employees that worked at the driving range were also ServiScape employees. Effective January 2013, the District signed an agreement with KS Harborside, LLC (KemperSports) to take over the operations and management of Harborside.

According to District officials, there were approximately 60-65 employees from ServiScape that were involved in maintenance of the golf course and approximately another 40 employees that worked in other areas related to golf operations, including maintaining golf carts and being rangers on the course. The Pro Shop had three assistant golf professionals who were also ServiScape employees. ServiScape also provided the driving range attendants. According to the District staff we interviewed at Harborside, the two District employees interviewed and hired the employees who work for ServiScape, but ServiScape paid the employee's salaries. The District then reimbursed ServiScape for the costs. The maintenance building and equipment are owned by the District, but the employees performing the maintenance were ServiScape employees. In the agreement with the District golf course maintenance costs includes grounds keeping and grounds crew personnel. Operations costs include non-maintenance personnel such as starters, rangers, bag attendants, cashiers, pro-shop attendants and supervisors. According to accounting information we received from the District, ServiScape was paid a total of \$2,266,398 in 2010 and \$2,346,657 in 2011. For the two year period, 83 percent of the payments made to reimburse ServiScape were for maintenance costs while only 17 percent were designated for operational costs.

We reviewed two expenditures paid to this contractor, one from 2010 for \$171,409 and one from 2011 for \$138,996. Although the District was able to provide supporting documentation for most costs, the documentation for the two expenditures contained:

- A lack of detail for some expenses (for example while a cash register receipt was provided for a \$1,025 Home Depot purchase, the receipt had no detail of what was purchased);
- Questionable expenses including a 401(K) administrative fee for \$313, 401(K) matches for two employees of the contractor for \$386, cell phones for \$128, and items charged to a credit card; and
- A \$1,103 charge for “office support” without any supporting documentation.

In addition, for both expenditures tested we could not find evidence of preapproval of large equipment purchases charged to the District. For instance, the 2010 expenditure we sampled that totaled \$171,409 included a \$79,381 charge for three mowers. The 2011 expenditure we sampled that totaled \$138,996 included a \$39,362 charge for an excavator.

The purchasing policies provided by the District require that no agreements, contracts, purchase orders or other obligations involving the expenditure of Port District funds for the purchase of supplies, equipment and tools, or services shall be entered into or executed until prices for the items or services are obtained from at least three different suppliers or contractors. The expenditures tested contained no evidence of bids for the equipment purchased. In addition, the contract with ServiScape states that “Upon written request from the Port District’s Executive Director, ServiScape shall, subject to the rights of reimbursement pursuant to section 1.11, purchase for the Port District such equipment and materials customarily utilized in the maintenance and operation of golf course facilities.” While the purchases in the expenditures we reviewed may have been allowable under the terms of the contract, auditors were provided with no evidence to show that the district determined they were necessary or gave prior approval of the purchases. The District signed an agreement with KS Harborside, LLC to manage Harborside Golf Center effective January 2013.

Revenues and Expenses

Harborside International Golf Statements of Operations (financial statement) reported net losses for five consecutive years from 2007 through 2011. Exhibit 6-1 shows the total revenues, total expenses, and total net loss for Harborside by year. As is shown in Exhibit 6-1, the largest single expense that Harborside had was for repairs, maintenance, and facility improvements.

Harborside Operating Income

Since 2008, the economy has affected golf income at the District as well as nationwide. **In 2010 and 2011, Harborside reported an operating loss of \$844,386 and \$964,225, respectively.**

Harborside International Golf Center has had net losses each year for the past five years (2007-2011). In 2008, Harborside reported an operating income of \$190,178 but a net loss of \$266,553. **Over the past three years (2009-2011) Harborside reported net losses of approximately \$1 million annually.**

The financial downfall at the golf course is industry wide. Due to the economy, there has

been less of a demand for golf. Furthermore, according to a District official another current trend is that private golf courses go out of business, and they reopen as a public golf course which is more competition for Harborside International Golf Center.

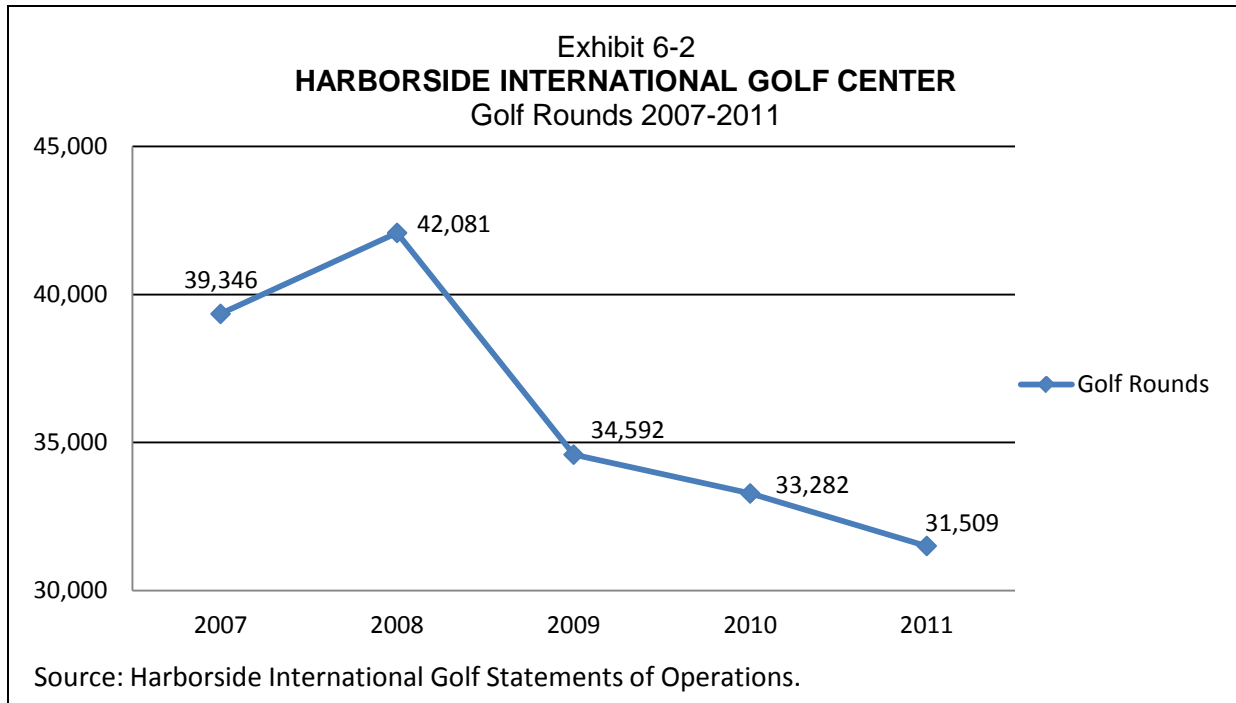
Exhibit 6-1 HARBORSIDE INTERNATIONAL GOLF REVENUES AND EXPENSES Calendar Years 2007-2011					
Revenues	2007	2008	2009	2010	2011
Golf fees, Net of Amusement Tax	\$2,984,790	\$3,371,333	\$2,862,733	\$2,635,545	\$2,502,449
Other Golf-Related Revenues	1,243,126	911,936	637,324	598,394	596,145
Total Revenues	\$4,227,916	\$4,283,270	\$3,500,057	\$3,233,939	\$3,098,595
Maintenance and Operating Expenses					
Salaries and Benefits	\$204,317	\$221,014	\$234,145	\$249,504	\$298,024
Insurance and Security	168,149	167,616	162,670	160,565	152,707
Repairs, Maintenance, and Facility Improvements	2,539,707	2,609,709	2,889,699	2,777,807	2,699,949
Marketing, Advertising and Promotion	117,216	98,865	87,191	74,339	56,952
Office Expenses	153,886	156,425	151,976	176,264	172,438
Utilities	249,628	243,997	180,619	191,139	192,928
Other Professional Fees	275	7,474	4,381	11,143	8,551
Cost of Merchandise	667,779	350,580	220,425	212,495	181,271
Depreciation and Amortization	232,877	237,411	323,389	225,071	300,000
Total Expenses	\$4,333,835	\$4,093,091	\$4,254,495	\$4,078,326	\$4,062,820
Operating Income (Loss)	\$(105,919)	\$190,178	\$(754,438)	\$(844,386)	\$(964,225)
Interest Income	102,571	80,621	34,768	2,261	19,662
Interest Expense	(687,031)	(537,353)	(326,911)	(148,513)	(151,494)
Net Loss	\$(690,379)	\$(266,553)	\$(1,046,581)	\$(990,638)	\$(1,096,057)
Note: Totals may not add due to rounding.					
Source: Harborside International Golf Statements of Operations.					

Overall Golf Trends

Harborside's total golf rounds played annually have decreased by 20 percent over the last five years (2007- 2011). In 2007, the total golf rounds played were 39,346; however, in 2011 the total golf rounds played had fallen to 31,509. Exhibit 6-2 shows the total golf rounds played by year at Harborside for 2007-2011. According to a Port District official, there has been a reduced demand for golf due to the economy. A January 2012 Golf Inc. Magazine article reported that demographic and economic trends have led to a decline of about 2 percent each year (Jack Crittenden, *7 Golf Industry predictions for 2012*, January 11, 2012). The Tribune Star, an Indiana newspaper, mirrored the Golf Inc. Magazine article by reporting that the trend in the number of rounds played in the U.S. has been going down since 2000 (Jennifer Meyers, *On and Off The Course: Trends Show Golf In Decline*, May 29, 2010). There were 518.4 million rounds played in 2000, 499.6 million in 2005 and 489.1 in 2008. In 2009 play on public courses was down .3 percent and down 1.8 percent on private courses. The Tribune Star article sites four factors contributing to the decline: the weather, the economy, the aging baby boomer generation, and a lack of interest in golf by younger players.

According to a Port District representative, Harborside usually has about 60 to 70 outings per year which has been static even during the downturn. However, Harborside has noticed a decline in the number of individual golfers. After 2008, there was a sharp decline in the number of individual golfers. A District official noted that Harborside may have increased competition because some of the private courses in the area have begun hosting outings to increase their own revenues since individual rounds being played have decreased.

The total rounds of golf played may be the most influential factor in the profitability of Harborside International Golf Center. Overall, there is a strong correlation between the number of customers that eat at the 19th Hole Grill (restaurant), make purchases at the Pro Shop, and the total rounds of golf played. The primary reason for going to Harborside is to play a round of golf. The restaurant and the Pro Shop are exposed to more potential customers when there are more people golfing. Furthermore, there is a correlation with the declining number of rounds of golf played and the declining revenue generated by Other-Golf-Related Revenues on Harborside's income statements. The only year that Harborside reported an operating profit was in 2008 when the golf rounds were above 40,000.



Operations and Revenues

The training academy is run by an independent contractor. He provides golf instruction to individuals, and the revenues collected by the District are split 80/20 (80% to the independent contractor and 20% to the District). Revenues for food and beverage sales, both on and off the course, are collected by the independent contractor that operates the restaurant (19th Hole Grill, Inc.). In accordance with the District's agreement with 19th Hole Grill Inc., 25 percent of revenue is paid to the District.

Harborside uses software for point of sale transactions, accounting, and inventory. Tee times and academy training revenues are also rung through this system. Golfers can book tee times through the internet as well.

Pro Shop employees (who are ServiScape employees) collect greens fees and merchandise sales in the Pro Shop and ring sales through one of three registers in the Pro Shop. Furthermore, golfers can make reservations via the internet or by telephoning the Pro Shop.

For the driving range, the attendant (who is a ServiScape employee) tracks the number of buckets of balls on a sheet and at the end of each shift the money is brought to the Pro Shop. Driving range buckets of balls are then rung through the system. The driving range is balanced twice a day when there is a shift change. Each shift starts with a \$100 bank in a cash box.

For the golf training academy, an independent contractor keeps track of the lessons given on a sheet and then takes the money, checks, and credit card receipts to the Pro Shop to be rung through the system by one of the golf pro assistants. The District then pays the independent contractor with a check for his share, which is 80 percent.

Cash and Accounting Practices

There are three registers in the Pro Shop, a cash box at the driving range, and another cash box at the training academy. Staff balances out each of these on a daily basis. A Port District employee at Harborside checks cash counts from the receipts received and reports to the Treasurer. According to staff, deposits are usually taken to the bank at least twice a week, depending on operations. If there is a big outing, deposits of cash may be made more often. Deposit slips are submitted with summary and detailed reports to the District after the deposit is made. A Port District employee at the District administrative office receives the deposit slips and the reports.

A Port District employee at Harborside prepares daily reports for revenues from the golf operations and files them with the District Office. In addition to the Daily Deposit Detail Sheet reports filed with the District Office include:

- Daily Z Summary Golf Shop (each register is a Z#);
- Deposit Report;
- Retail Detailed Tax Report;
- Payment Transaction Report;
- Daily Sales Journal;
- Sales Account Stat Class X Report; and
- Daily Sales Journal Report.

The detailed reports submitted to the District include the quantity of all items purchased, including prepaid items. The reports also calculate the Amusement Tax (which is 9%) to be paid to the city of Chicago on the driving range, golf rounds, and outings. The tax is not charged if the group sponsoring the outing is a tax exempt organization. The reports also calculate and track sales taxes, the number of rounds of golf, golf lessons, and buckets of balls purchased. We reviewed the daily deposit detail for a four day period September 10, 2012, through September 13, 2012. The only concern identified in our review was the timeliness of reporting and depositing the \$5,562 in cash and checks for the four day period. The detailed reports and the deposit were not completed and submitted to the District office until September 19, 2012. Therefore, cash was not deposited for 6-10 days from the date of collection.

Inventory

According to District employees, shipments of new merchandise and golf supplies are ordered every month during the golf season so that the District does not have to pay for all merchandise up front for the entire season. This also allows staff to gauge sales and make adjustments in ordering. According to the District employee that places the orders, salespeople call on him and staff checks the inventory weekly and decides if an order needs to be placed.

When an order is placed the merchandise is sent to the Pro Shop. However, the bill is sent to the District. When goods are received they are keyed into the system for inventory and sales tracking. The system tracks inventory, including inventory on hand with a “snapshot report.” The snapshot report shows inventory as of a point in time and tracks it constantly. Excess inventory is kept in a locked room in the basement of the building. According to District employees, the annual physical inventory is conducted as part of the audit by Ernst and Young.

19TH HOLE GRILL, INC.

In addition to the Harborside golf courses, there is also a restaurant on-site called the 19th Hole Grill which opened in 1998. The restaurant is operated by a contractor. According to the contract, the restaurant is to pay the District 25 percent of all gross sales for food and beverages sold at Harborside, including beverage cart sales, daily sales, banquets and special events. The District collected revenue in 2010 and 2011 of \$213,577 and \$173,784 respectively, for the restaurant.

We reviewed the contract and payments and found that the restaurant was not filing monthly reports and making payments to the District on a monthly basis as was required by the contract. According to the requirements within the contract for the restaurant, payment is to be made to the District by the 15th day after the end of each calendar month. The General Ledger provided by the District’s treasurer shows that the restaurant only submitted 8 payments in 2011, and 7 payments in 2010. The agreement also stated that there will be a late fee assessed, and the Contractor will pay interest, computed daily, at the prime rate to commercial borrowers, plus 3 percent. The District also has the right to terminate the contract if the Contractor refuses to pay the amount due to the District after 30 days. We were unable to determine if late fees were assessed from reviewing the General Ledger.

The contract also requires that the Contractor shall furnish an audited annual report for Contractor's gross sales at Harborside and total fees charged by Contractor to the Port District for golf outings, special events, banquets tournaments, etc. within 60 days of the close of each calendar year. We requested documentation of these audited annual reports for the period 2010-2011. Although District officials provided a three page document dated September 28, 2012, which included a cover page, table of contents, and an independent auditor’s report letter, it was not for Harborside specifically. The document also did not include the contractor’s gross sales at Harborside and total fees charged to the Port District as is required by the agreement.

SUBMISSION OF PAYMENTS, REPORTS, AND AUDITS	
RECOMMENDATION 26	<i>The District should ensure that monthly payments and required reports are submitted in accordance with contractual agreements. The District should also consider utilizing provisions within the contracts to charge interest on late payments.</i>
DISTRICT RESPONSE	The IIPD agrees. The District will continue to review for compliance in the future. In 2012, after the Chairman learned that the 19 th Hole Grill had not been making timely payments, Staff directed the restaurant to ensure compliance with the timing requirements contained in its contract. That contract has since been assigned to KS Harborside, as part of its agreement to manage Harborside.

APPENDICES

Appendix A
House Resolution No. 1088

STATE OF ILLINOIS
HOUSE OF REPRESENTATIVES
97TH GENERAL ASSEMBLY

HOUSE RESOLUTION NO. 1088
OFFERED BY REPRESENTATIVE JOHN E. BRADLEY

WHEREAS, The State of Illinois has a strategic interest in the operations of the Illinois International Port District and its Board, whose function is to develop the District's port and harbor facilities, issue construction permits, regulate the District's facilities and waterways, establish and operate foreign trade zones, and govern and administer all the District area within Chicago's corporate limits; and

WHEREAS, The City of Chicago aims to revitalize the Port of Chicago; in 2010, cargo shipments at the Port of Chicago directly or indirectly supported 6,930 jobs and generated \$425,000,000 in revenue for Illinois firms, according to the Washington D.C.-based American Great Lakes Ports Association; and

WHEREAS, The Port of Chicago links rail and trucking lines with barges and ships supplying the Great Lakes and nearby rivers; the port handles an estimated 26,000,000 cargo tons annually throughout its 1,500 acre complex on the far south side, according to a recent estimate by a consortium of Great Lakes shipping interests; and

WHEREAS, Chicago is the 7th largest U.S. Customs district for imports and exports in the country; the U.S. Army Corps of Engineers ranks Illinois as the 5th highest state for all waterborne commerce in 2009 by tonnage; the Great Lakes is considered "America's Fourth Coast"; and

WHEREAS, Although the Illinois International Port District Board has operated the port since the 1950s, there have been no major dockside improvements in 30 years; in 2011, half of the District's revenue originated with the 2 golf courses on the District's land, while the other half originated from fees paid by freight companies, according to Crain's Chicago Business; and

WHEREAS, The State of Illinois, the City of Chicago, and the entire Midwest economy need a major change in the operations of the Illinois International Port District; and

WHEREAS, The Chairman of the Illinois International Port District Board has requested that the Auditor General conduct an audit as described below; therefore, be it

RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE NINETY-SEVENTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, that the Auditor General is directed to conduct a management audit of the Illinois International Port District to examine the operations and management of the district and to report the findings to the Illinois General Assembly; and be it further

RESOLVED, That the Illinois International Port District and the Illinois International Port District Board fully cooperate with the audit and turn over any materials requested by the Auditor General; and be it further

RESOLVED, That the Auditor General is further directed to commence this audit as soon as possible and, upon completion, distribute a report in accordance with Section 3-14 of the Illinois State Auditing Act; and be it further

RESOLVED, That suitable copies of this resolution be delivered to the Auditor General and to all 4 legislative leaders of the Illinois General Assembly.

Adopted by the House of Representatives on May 31, 2012.

Timothy D. Mapes
TIMOTHY D. MAPES
CLERK OF THE HOUSE



Michael J. Madigan
MICHAEL J. MADIGAN
SPEAKER OF THE HOUSE

Appendix B
Audit Methodology

Appendix B

AUDIT METHODOLOGY

House Resolution No. 1088 directed the Auditor General to conduct a management audit of the Illinois International Port District (District) (see Appendix A). The resolution asks the Auditor General to examine the operations and management of the District. The audit's objectives included determining:

- Whether the Board is adequately overseeing the operations of the District;
- Whether District's operations are adequately managed;
- Whether the District's finances are adequately managed;
- Whether the District's personnel practices are appropriate;
- Whether the District's assets are being utilized and managed in the best interest of the District; and
- Whether the golf operations and restaurant operations are adequately managed.

An entrance conference was held and initial work began on the audit in August 2012 and fieldwork was concluded in March 2013. We met with officials from the District and conducted walkthroughs of the District's operations to identify key decision points, problem areas, and issue areas for audit testing. We also reviewed Board meeting minutes for the two-year period 2010-2011.

In conducting the audit, we reviewed applicable statutes, rules, and District policies and procedures. We reviewed compliance with those laws, rules, and policies to the extent necessary to meet the audit's objectives. Any instances of non-compliance we identified are noted as recommendations in this report.

We assessed risk by reviewing audited financial statements of the District and reviewing internal documents including policies and procedures. We reviewed management controls relating to the audit objectives. The audit reports any weaknesses identified in those controls and includes them as recommendations.

Testing and Analytical Procedures

We reviewed primary tenant leases and terms for requirements contained in the lease agreements between the District and the lessee. We reviewed lease files to assess compliance with the terms of the leases.

We also reviewed a sample of 50 expenditures for 2010 and 2011. We judgmentally selected these 50 expenditures for testing. Therefore, results cannot be projected to the population.

Appendix C
Illinois International Port District
Responses

**ILLINOIS INTERNATIONAL
PORT DISTRICT**

3600 E. 95th Street
95th and the Lakefront
Chicago, IL 60617-5193
773-646-4400
773-221-7678 (FAX)

June 10, 2013

VIA US Mail

Honorable William G. Holland
Auditor General State of Illinois
740 East Ash St.
Springfield, IL 62703-3154

Re: Illinois International Port District

Dear Auditor General Holland:

We appreciate the work performed by your office in the management audit of the Illinois International Port District ("IIPD") for the years 2010 and 2011. Enclosed with this letter are detailed Responses that address each of the Recommendations contained in your draft report.

My appointment to the IIPD board became effective in December 2011, and the Board elected me to the position of Chairman on December 16, 2011, just 15 days before the end of the audited period. Since that time, the IIPD has taken the necessary steps to ensure that it is operating with maximum transparency, efficiency, and accountability. For example, at my first Board meeting, the IIPD Board took substantial steps to do so at my request. These included (1) revamping the IIPD website to include, for the very first time, extensive financial and other information about the IIPD; and (2) beginning the process of hiring a private company to operate the Harborside International Golf Center ("Harborside").

To this same end of ensuring that the IIPD operates with maximum transparency, efficiency, and accountability, I requested the Illinois House of Representatives to pass a resolution authorizing your office to conduct this audit. This management audit is unusual for two reasons. First, the IIPD is entirely self-funding and, unlike many other Great Lakes ports, the IIPD does not depend on legislative appropriations or tax monies for its operations.

Second, the IIPD is in the process of making fundamental changes in the way that it manages both of its primary assets – the Port of Chicago and Harborside. Specifically, in December 2012, IIPD entered into a Management Agreement with a subsidiary of KemperSports, Inc., one of the nation's premier golf course management companies, chosen as a result of an extensive Request for Proposal ("RFP") process, to manage Harborside. This Agreement will assure IIPD a profitable operation for its golf facilities, as opposed to the substantial losses that Harborside has generated in recent years. Separately, in 2012, IIPD engaged with BMO Capital in another extensive RFP process to advise the IIPD in connection



Port of Chicago
Foreign Trade Zone No. 22

AUDITOR COMMENTS



**ILLINOIS INTERNATIONAL
PORT DISTRICT**

3600 E. 95th Street
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Chicago, IL 60617-5193
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Page 2
June 10, 2013

with a possible master lease arrangement with a highly skilled private Port operator for the management and operation of its Port facilities. We hope that this process will result in a substantial investment of private capital in Port infrastructure and concomitant job creation. This selection process is scheduled to be completed by the end of this calendar year.

The major changes in the operating structure of IIPD's two major enterprises will make many of your Recommendations moot. However, the IIPD, as a governmental entity, will continue to function in a manner that will assure compliance with these management agreements and its other statutory responsibilities. As reflected in our Responses, many of the Recommendations that relate to IIPD's continued operations have *already* been adopted (in most cases before we even received your draft report) or have been considered by the IIPD board. The cumulative impact of the new management initiatives and the adoption of the audit Recommendations will help to assure the future vitality of IIPD's assets, and the compliance of its management operations with the high standards to which we are committed.

#1

#2

Very truly yours,

Michael Forde
Chairman

Cc: Michael Paoni via email



Port of Chicago
Foreign Trade Zone No. 22



AUDITOR COMMENTS

Auditor Comment #1

Simply changing the operating structure without changing operational practices and policies will not make the recommendations contained in this report “moot”. Rather, the Board needs to be vigilant and perform oversight to ensure that deficiencies in District policies and management practices are corrected.

Auditor Comment #2

Auditors informed both the Executive Director and Board Chairman of many of the issues in the audit report months before a draft report was provided to the District.

IIPD RECOMMENDATION RESPONSES

ORGANIZATIONAL STRUCTURE	
RECOMMENDATION 1	<i>The Board should examine the organizational structure of the District in order to determine whether changes should be made to clarify lines of responsibility and reporting.</i>
DISTRICT RESPONSE	

The Illinois International Port District operates pursuant to the Illinois International Port District Act, 70 ILCS 1810/1 *et seq.* The District is organizationally structured according to parameters outlined in its statute. As of January 1, 2013 the Board of Directors of the IIPD reorganized the structure of the District to reflect the current operations of the District. The Board continually examines all facets of the District’s operations and makes changes when appropriate. The Port District has undertaken an initiative to consider the reorganization of the District administration per the BMO Strategic Capital Needs Plan. This initiative is consistent with the fact that the Port District does not receive or spend any taxpayer money or public funds. It should also be noted that the Chairman has elected not to accept the additional \$5,000 authorized by the Act.

#3

LONG-TERM PLANNING	
RECOMMENDATION 2	<i>The Board should develop and approve a written long-term plan for the District that includes written goals and objectives. The plan should address District and port operations, include a plan for marketing the port, and ensure the future financial viability of the District.</i>
DISTRICT RESPONSE	

The IIPD Board previously commissioned two economic impact studies, in 2003 and 2011, along with a Strategic Plan study in 2012. The Board of Directors is currently reviewing options received for a Master Lease structure (RFI 2013) for the District which would include all of the financial and marketing aspects as well as the future financial viability of the Port District.

AUDITOR COMMENTS

Auditor Comment #3

The District's assertion that its moneys are not "public funds" is inconsistent with its statutory creation. State law (70 ILCS 1810) created the District as a political subdivision, body politic and municipal corporation and set forth its powers and responsibilities. Board members are appointed by the Mayor of Chicago and Governor and approved by the Illinois State Senate. Furthermore, the District received and expended a \$14,968,090 loan from the Capital Development Board, a State agency whose funds are public. Finally, whether or not the District's moneys are "public" does not obviate the Board's responsibility to ensure that they are prudently and effectively utilized.

IIPD RECOMMENDATION RESPONSES

INFORMATION PROVIDED TO THE BOARD	
RECOMMENDATION 3	<i>The Board should consider adding electronic fund transfers, payroll, and banking statements to the information that is reviewed and approved at monthly meetings.</i>
DISTRICT RESPONSE	

In April 2013, the Board directed the Staff and Treasurer to implement a policy to treat electronic fund transfers in the same way that it does checks.

BOARD COMMITTEES	
RECOMMENDATION 4	<i>The District should ensure that committees established by the Board's by-laws meet on a regular basis.</i>
DISTRICT RESPONSE	

The IIPD agrees and, for this reason, in April 2013 the Board revised its by-laws to reduce the number of standing committees to two, which routinely meet on a monthly basis.

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

CONSULTANT AGREEMENTS	
RECOMMENDATION 5	<p><i>The Board should:</i></p> <ul style="list-style-type: none"> • <i>Develop and execute agreements with all consultants showing the duties to be performed and the rates charged for services; and</i> • <i>Consider requiring a surety bond from each consultant.</i>
DISTRICT RESPONSE	

#4

The General Counsel, the Engineer, the Secretary to the Board, and the Treasurer are not consultants, but in fact are statutory officers created by the District’s enabling Act.

#5

The General Attorney is a statutory officer of the District, the appointment being expressly authorized by the Act. 70 ILCS 1810/20. The Board may, and has, retained other attorneys with special expertise, as may be necessary. A general attorney, as designated by the Act and as identified by other Illinois statutory authorities, is commonly understood to be the chief legal officer of the agency responsible for all its legal activities. 25 ILCS 170/2(c)(3). In November 16, 2012, the Board formally ratified a fee agreement with its General Attorney.

Each year the District ratifies the appointment of the General Attorney, Chief Engineer, Board Secretary, and Treasurer by prospectively providing an allocation for payment in the annual budget. The General Attorney submits monthly billing detailing with specificity the services provided. The General Counsel is not required to post a bond, however the General Counsel does have professional liability insurance.

The Chief Engineer is a statutory officer of the District, the appointment being expressly authorized by the Act 70 ILCS 1810/20. The Chief Engineer provides a detailed monthly billing of services provided in support of its monthly payments. The Chief Engineer is not required to post a bond, however the Engineer does have professional liability insurance.

The Secretary to the Board is a statutory officer of the District, the appointment being expressly authorized by the Act. 70 ILCS 1810/17. In February 15, 2013, the Board formally ratified a the compensation for the Secretary. The duties of the Secretary, who is an ex-officio member of the Board, are described in the By-Laws of the Port District as follows:

The Secretary – The Board shall appoint a Secretary “who need not be a member of the Board, to hold office during the pleasure of the Board, and he/she shall take and

AUDITOR COMMENTS

Auditor Comment #4

For Recommendations 5, 6, 7, 16, 19, and 21, the District included a recommendation from an earlier draft of the audit report. That recommendation has been changed, which is now in the final report.

Auditor Comment #5

Auditors agree that the Board's appointees are established by State law and that Board by-laws establish requirements for some of these positions. However, the auditors conclude that formal agreements between the Board and these appointees which delineate the scope of services and other standard contractual requirements would better protect the interests of both the Board and the appointees. In fact, in January 2012 the District's engineer requested that the Board approve an agreement delineating the rate of pay, scope of services, and other standard contractual provisions, which was subsequently accepted by the Board and signed by the Executive Director.

IIPD RECOMMENDATION RESPONSES

subscribe the Constitutional Oath of Office. The Secretary shall be the custodian of all records and a seal of the District, should it adopt a common seal, and shall keep accurate minutes of the meetings of the Board and all of the committees thereof. He/She shall, when required, certify to copies of records of the Authority, and shall execute legal instruments and documents on behalf of the Board, and shall issue subpoenas to secure the attendance and testimony of witnesses, and the production of books and papers relevant to Board instituted investigations and the production of books and papers relevant to Board instituted investigations and the production of books and papers relevant to such investigations, and to any hearings before the Board or any member thereof, if and when so ordered by the Board. He/She shall perform all such other duties as directed by the Board.” Page 5 Bylaws, amended 2013. The Secretary to the Board is not required to post bond.

The Treasurer is a statutory officer of the District, the appointment being expressly authorized by the Act. 70 ILCS 1810/17. The duties of the Treasurer, who is an ex-officio member of the Board, are described in the By-Laws of the Port District as follows:

The Board shall appoint a Treasurer, “who need not be a member of the Board. The Treasurer shall be responsible for all monies of the Illinois International Port District from whatever sources received, and for all securities in the possession of the Authority, and for the deposit of such monies in the name of the Illinois International Port District in a bank or banks approved by the Board; and he/she shall be responsible for all disbursements of such funds for the purposes for which intended or as authorized or directed by the Board. The Treasurer shall make periodic accountings for all such funds as determined by the Board, and his/her books and records shall be available for inspection by any member of the Board during business hours. Before entering upon the duties of this office, he/she shall take and subscribe the Constitutional Oath of Office, and shall execute a bond with corporate sureties to be approved by the Board. The bond shall be payable to the District in whatever penal sum may be directed by the Board conditioned upon the faithful performance of the duties to the office and the payment of all money received by him/her according to law and the orders of the Board. The Board may, at any time, require a new bond for the Treasurer in such penal sum as may then be determined by the Board. The obligation of the sureties shall not extend to any loss sustained by the insolvency, failure or closing of any national or state bank where in the Treasurer has deposited funds if the bank has been approved by the Board as a depository for these funds.” Page 5, 6 Bylaws, amended 2013. The Treasurer is currently covered under the District’s Directors and Officers liability insurance.

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

PURCHASING AND CONTRACTUAL SERVICES	
RECOMMENDATION 6	<i>The District should:</i> <ul style="list-style-type: none"> • <i>Establish dollar thresholds at which competitive bids/proposals are required; and</i> • <i>Establish contracts with all vendors over a set threshold.</i>
DISTRICT RESPONSE	

#6

We take this recommendations seriously and will review our policies. Notwithstanding the legal opinion set forth below, the IIPD has bid out every contract of substantial size in recent years. The following legal opinion was prepared by the Port District’s General Counsel on March 10, 1981, and has been the policy of the District since that time. The opinion relied primarily on two statutes: the Chicago Regional Port District Act, and the Illinois Purchasing Act. The Chicago Regional Port District Act is currently titled the Illinois International Port District Act, and the Illinois Purchasing Act has been updated to the Illinois Procurement Code. Accordingly, the substance and conclusions remain applicable with the updated citations found herein:

#7

It is our determination that the Port District is not required to public bid its purchase contracts. This is clear from our analysis of the Port District Enabling Act and the other statutes pertaining to units of local government. As noted in the enclosed opinion, the Port District is only required to public bid contracts and agreements relating to the operation of warehouse facilities and terminals constructed before August 6, 1963.

PUBLIC BID REQUIREMENT PRIOR TO THE LETTING OF CONTRACTS FOR THE PURCHASE OF PERSONAL PROPERTY AND/OR PERFORMANCE OF SERVICES

It is the opinion of special counsel to the Illinois International Port District that the Port District is not required to publicly bid any contract for the purchase of personal property or the performance of services. The opinion is based upon a review and analysis of the Illinois International Port District Act (70 ILCS 1810/1 et. seq.), the Illinois Procurement Code (30 ILCS 500/1-1 et. seq.), and the Illinois Municipal Code (65 ILCS 5/1-1-1 et. seq.).

OPINION OF COUNSEL

The Illinois International Port District Act (70 ILCS 1810/1 et. seq.) (hereinafter "Port District Act") gives the Port District the right and power to enter into contracts for the purpose of improving and developing Lake Calumet as a water and land transportation facility. The Port

AUDITOR COMMENTS

Auditor Comment #6

For Recommendations 5, 6, 7, 16, 19, and 21, the District included a recommendation from an earlier draft of the audit report. That recommendation has been changed, which is now in the final report.

Auditor Comment #7

Although the District responded that it has “bid out every contract of substantial size in recent years,” auditors found numerous instances where there was no contractual agreement or evidence that competitive procurement occurred for large expenditures (see Exhibit 3-5).

IIPD RECOMMENDATION RESPONSES

District Act (70 ILCS 1810/1 et. seq.) does not require public bidding prior to the granting of a contract for the purchase of personal property or the performance of services. The only requirement for the bidding of Port District contracts appears in Section 502 of the Port District Act (70 ILCS 1810/5.02). Section 5.02, as originally enacted in 1955, expressly requires public bidding for "all leases or other contracts for operation of any public warehouse or public grain elevator." That section sets forth the procedure for such bidding. In 1963, the General Assembly changed the law and eliminated the bid requirement for public warehouses and public grain elevators constructed after August 6, 1963.

The General Assembly specified that the Port District must bid contracts to lease warehouses constructed prior to August 6, 1963. By requiring bidding for this kind of contract, but no others, the legislature evidenced its intention not to require bidding for other kinds of contracts.

The Illinois Procurement Code (30 ILCS 500/20-5 et. seq.) contains a provision which delineates a specific bidding procedure with respect to the acquisition of personal property and the letting of services contracts. However, the Illinois Procurement Code does not apply to the Port District. The Illinois Procurement Code applies only to "State Agencies." The Port District is not included within the statutory definition of "State Agencies." A "State Agency" is a body politic and corporate of the state "other than units of local government." (30 ILCS 500/1-15.100). The Port District is a unit of local government. Section 3 of the Port District Act provides that the District is "a political subdivision, body politic and municipal corporation" (70 ILCS 1810/3). A political subdivision, body politic and municipal corporation is a unit of local government, hence, the bidding procedure outlined in the Illinois Procurement Code does not apply to the Port District.

Similarly, the Illinois Municipal Code does not apply to the Port District (65 ILCS 5/1-1-2). Municipality is defined in Section 1-1-2 of the Illinois Municipal Code:

"'Municipal' or 'Municipality' means a city, a village, or incorporated town in the State of Illinois, but, unless the context otherwise provides, 'Municipal' or 'Municipality' does not include a township, town when used as the equivalent of a township, incorporated town which has superseded a civil township, county, school district, park district, sanitary district, or any other similar governmental district ●●●" (Emphasis Added.)

By definition, the Port District is not a municipality subject to the provisions of the Illinois Municipal Code.

Section 27 of the Act (70 ILCS 1810/27) supports the legal conclusion that the Illinois Municipal Code and its public bidding requirements are not applicable to the purchases, acquisitions and contracts of the Port District. Section 27 of the Act provides as follows:

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

"The provisions of the Illinois Municipal Code, as heretofore and hereafter amended, shall not be effective within the area of the district insofar as the provisions of said act conflict with the provisions of this Act or grants substantially the same powers to any municipal corporation as are granted to the district by this Act." (Emphasis added).

From the preceding provision, it is clear that when there is a conflict between a specific provision of the Port District Act (70 ILCS 1810/1 et. seq.) and the Illinois Municipal Code the Port District Act will prevail.

Further, Section 27 obviates any doubt as to superiority of the Port District Act over the Illinois Municipal Code as it relates to the acquisition and purchase of goods and services. The phrase "... or grants substantially the same power to any Municipal Corporation as are granted to the District by this Act," is incorporated into each Port District Act establishing and controlling the different port districts within the State of Illinois. For example, the same language is incorporated into Section 209 of the Waukegan Regional Port District Act (70 ILCS 1865/31) Section 280 of the Joliet Regional Port District Act (70 ILCS 1825/30) and Section 314 of the Tri-City Regional Port District Act (70 ILCS 1860/31). The inclusions of each of these sections exempts each particular port district, including the Port District, from the provisions of the Illinois Municipal Code. Thus, the Port District is not required to bid contracts for the provisions of services, or contracts for the purchase, lease or sale of personal property, materials, equipment or supplies.

CONCLUSION

Counsel has reviewed and analyzed the specific provisions of the Port District Act (70 ILCS 1810/1 et. seq.), Illinois Procurement Code (30 ILCS 500/1-1 et. seq.), and the Illinois Municipal Code (65 ILCS 5/1-1-1 et. seq.). It is the opinion of Special Counsel that there is no requirement for public bid prior to the purchase of personal property, materials, equipment, and supplies by the Port District and/or letting of a contract for the performance of services. The Port District may however impose bidding requirements when and where it determines that competitive bidding is appropriate and would be in the best interests of the Port District.

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

APPROVAL OF EXPENSES	
RECOMMENDATION 7	<i>The District should:</i> <ul style="list-style-type: none"> • <i>Update its policies for approval of expenses;</i> • <i>Date stamp invoices and bills when received; and</i> • <i>Require vendors to provide detailed support for charges to the District.</i>
DISTRICT RESPONSE	

#8

The IIPD agrees with this recommendation. During the audit period there was a personnel change, and the transition resulted in the omission of date stamping for a short period of time. This has been corrected. It is customary for vendors to supply detailed support for their charges. District staff has been directed to monitor this. The District currently has a procedure in place where the appropriate staff members review and approve expenses.

SEGREGATION OF DUTIES	
RECOMMENDATION 8	<i>The District should ensure that more than one person has access to and reviews accounting and banking information.</i>
DISTRICT RESPONSE	

#9

Accounting systems encompass a number of areas including customer billing, bank records, payroll, payables and financial reporting. No one individual has sole access to any of these systems and the related information. The Board also reviews and approves monthly financial statements and monthly check registers. All checks have two signatures. Even with the small staff, key duties related to billing, payroll and disbursements have appropriate segregation and controls in place including the Board review of financial information in comparison to the Board approved budget. This is done at the Board Committee level and by the full Board monthly. The CFO now has access to the accounting system and the bank records.

AUDITOR COMMENTS

Auditor Comment #8

For Recommendations 5, 6, 7, 16, 19, and 21, the District included a recommendation from an earlier draft of the audit report. That recommendation has been changed, which is now in the final report.

Auditor Comment #9

Only one individual (the Treasurer) had access to the District's electronic accounting system and on-line banking information while auditors were performing their review which resulted in significant delays in obtaining financial information during the audit. For example, on November 6, 2012, auditors requested a download or back-up of the District accounting system. On November 7, 2012, auditors were on-site but District employees could not provide the download of the accounting system. On November 8, 2012, auditors contacted the Board Chairman to inform him that we could not obtain a download of the accounting system while on-site. On November 9, 2012, a conference call was held between the auditors, the Executive Director, and Treasurer. The Treasurer finally provided a download of the District's general ledger to auditors on November 26, 2012, in a text format which took a significant amount of time and effort to format into a usable file format.

The new CFO was not hired until January 2013. This individual **did not have access** to the accounting system or on-line banking access during our on-site work. On February 1, 2013, auditors first met with the CFO at which time he stated that he **did not have access** to the electronic accounting system. On March 27, 2013, while conducting fieldwork on-site, the CFO stated that he **had not been able to obtain access** to the District's electronic accounting system and **did not have access** to on-line banking information for auditors.

IIPD RECOMMENDATION RESPONSES

ANNUAL AUDITED FINANCIAL STATEMENTS	
RECOMMENDATION 9	<p><i>The District should issue an audit report annually as is required by the loan agreement with the State of Illinois. In addition, the District’s audited financial statement should:</i></p> <ul style="list-style-type: none"> • <i>Include notes regarding assets located in sinking fund(s); and</i> • <i>Include an analysis of Iroquois landing’s profitability.</i>
DISTRICT RESPONSE	

The IIPD agrees with this recommendation. Since 1955, the District has engaged an independent auditor to issue an opinion on the District’s financial statements. It will be requested of the independent auditor that sinking fund assets will be included in the District’s audited financial statements. Moreover, since January, 2012, the information about the sinking fund has been included in the monthly financial statements that are provided to the IIPD Board and posted on the IIPD website. Furthermore, the independent auditors have given an opinion of their analysis of Iroquois Landing’s profitability annually.

#10

BASIS OF ACCOUNTING	
RECOMMENDATION 10	<p><i>The District should consider changing its basis of accounting for financial statements to GAAP as is required by their bank reimbursement agreement related to the issuance of \$15 million in revenue bonds.</i></p>
DISTRICT RESPONSE	

The Board of Directors, on two separate occasions, has seriously solicited and reviewed numerous proposals from qualified major accounting firms and rejected a change from their current procedures from Modified Cash to GAAP accounting because it is not fiscally sound or prudent to make a change at this time because of the increased cost associated with a GAAP audit. The following is an Opinion Letter from the Port District’s General Counsel:

#11

This responds to your suggestion that the GAAP accounting format required in the Illinois

AUDITOR COMMENTS

Auditor Comment #10

The District's audited financial statements contained a single sentence in its notes which states, "...Iroquois Landing has not achieved net profit to date." A more detailed analysis of Iroquois Landing's annual profitability in the audited financial statements would provide more complete disclosure about the District's ability to repay the \$14,968,090 loan from the State's Capital Development Board. In addition, auditors were not provided with an analysis of Iroquois Landing's annual profitability during the audit.

Auditor Comment #11

The Board's decision to not change to a GAAP accounting basis does not negate the fact that the bank reimbursement agreement requires accounting on a GAAP basis. Auditors requested that the District provide evidence that the bank had waived this requirement. The District did not provide any documentation.

IIPD RECOMMENDATION RESPONSES

Governmental Account Audit Act (“Audit Act”) may apply to the Illinois International Port District (“Port District”). 70 ILCS 310/1 The Audit Act would apply to the Port District only if: (a) its revenue constitutes “public funds” within the meaning of the Audit Act, (b) it exercises its power of appropriation to use such funds, and (c) it has appropriated more than \$5,000 of public funds for a specific project within a fiscal year.

It should first be noted that the Port District receives no appropriation of State funds for its operations. Nor does the Port District have the power to levy taxes. 70 ILCS 1810/10. Instead, the Port District operates entirely on self-generated revenue from rents, and other fees, paid by its tenants. The Illinois Supreme Court has determined that, with respect to state auditing legislation, such funds are not considered to be “public funds” which require state supervision. *City of Chicago v. Holland*, 206 Ill. 2d 480, 495, 795 NE 2d 240, 249 (2003). We submit, therefore, that the Port District is not subject to the Audit Act.

The Illinois International Port District Act contains a provision expressly governing the Port District’s financial reporting requirements. Section 22 states:

“As soon after the end of each fiscal year as may be expedient, the Board shall cause to be prepared and printed a complete and detailed report and financial statement of its operations and of its assets and liabilities. A reasonable sufficient number of copies of such report shall be printed for distribution to persons interested, upon request, and a copy thereof shall be filed with the Governor and the county clerk of each count which is partially or wholly within the area of operation of the District. A copy of such report shall be addressed to and mailed to the Mayor and city council or president and board of trustees of each municipality within the area of the District.” 70 ILCS 1810/22.

This reporting requirement does not require a GAAP accounting format. Accordingly, the GAAP accounting format, as required in the Audit Act, does not apply to the Port District.

Furthermore, the independent auditor for the District has clearly stated in its Summary of significant accounting policies, that IIPD financial statements are “presented fairly,” and no payments to the State have been required per the loan agreement to date. Since 2003 the banks have waived the GAAP requirement, and when an event of default is waived, it is cured and stops continuing.

#12

AUDITOR COMMENTS

Auditor Comment #12

Auditors requested that the District provide evidence that the bank had waived this requirement. The District did not provide any documentation.

IIPD RECOMMENDATION RESPONSES

EMPLOYEE BENEFITS	
RECOMMENDATION 11	<i>The District should reassess its insurance and pension needs and should consider covering only employees of the District and charging those employees a portion of those costs.</i>
DISTRICT RESPONSE	

The Board of Directors routinely reviews its pension and insurance needs. The Board annually makes contributions to the pension fund. Furthermore, the Board reviews, plans, and makes reasonable, rational changes when appropriate.

#13

PROPERTY CONTROL	
RECOMMENDATION 12	<i>The District should establish a property control system that includes tagging and tracking of property. The District should also ensure that equipment purchases are competitively bid.</i>
DISTRICT RESPONSE	

The IIPD agrees and, for this reason, a policy was implemented to tag and track equipment purchased since January 1, 2012.

FLEET CARDS AND MILEAGE LOGS	
RECOMMENDATION 13	<i>The District should issue fleet cards to all employees with take home vehicles and should require mileage logs to be submitted by all employees assigned a vehicle, so that vehicle use can be more effectively monitored. Mileage logs should also be dated, signed, and approved by the employees' supervisor.</i>
DISTRICT RESPONSE	

AUDITOR COMMENTS

Auditor Comment #13

As shown in Exhibit 3-7, the District's contributions to its pension plan have not adequately funded the plan, which was 30.52% funded in 2011. The auditors hope that, as stated in its response, the Board will make "reasonable, rational changes" when appropriate to its pension plan.

IIPD RECOMMENDATION RESPONSES

Of the two vehicles currently being utilized by the District, both operators have been instructed to report monthly mileage to be included in the long standing maintenance logs of the vehicles. Federal Treasury Regulation §1.61-21(f)(3), which states that employer provided vehicles that are used by employees for commuting purposes are subject to federal income taxes for each day they are used for commuting, has an exception for employees who are always “on call”. These two employees in question are currently first responders for Homeland Security as well as all emergencies. Therefore they are exempt from the above Treasury Regulation.

#14

TELECOMMUNICATIONS NEEDS	
RECOMMENDATION 14	<i>The District should assess its telecommunications needs in order to reduce the number of lines and costs.</i>
DISTRICT RESPONSE	

The IIPD agrees. As of January 1, 2013, the District staff completed a review which reduced the number of lines and costs to the District dramatically.

TENANT LEASES	
RECOMMENDATION 15	<i>The District should:</i> <ul style="list-style-type: none"> • <i>Establish written leases with all primary tenants; and</i> • <i>Update leases to reflect current operations.</i>
DISTRICT RESPONSE	

The Board at this time is reviewing proposals regarding the possibility of a master lease structure at the District. That process will likely moot this issue by transferring this responsibility to a private operator. The following shows the Board’s legal parameters for

#15

AUDITOR COMMENTS

Auditor Comment #14

In 2011, four employees had take home vehicles, of which two were golf pros.

Auditor Comment #15

Simply transferring responsibilities to a private operator does not obviate the Board's responsibility to ensure that leases are enacted and updated.

IIPD RECOMMENDATION RESPONSES

lease negotiations:

It is the legal opinion of the General Counsel that the Port District is not required by law to advertise and competitively bid ground leases for vacant, unimproved land.

Our opinion is based upon the following statutes:

1. The Illinois International Port District Act, (70 ILCS 1810/1 *et seq.*)
2. The Illinois Municipal Code (65 ILCS 5/1-1-2 *et seq.*).

ILLINOIS INTERNATIONAL PORT DISTRICT ACT

The Port District is an Illinois Municipal Corporation created by the Illinois Legislature in 1955. The powers and duties of the Port District are defined in its enabling act printed at (70 ILCS 1810/1 *et seq.*). (Section 5.02) of the Act requires the Port District to advertise and competitively bid all leases and other contracts for the operation of its public warehouses and public grain elevators constructed prior to August 6, 1963.

"All leases or other contracts for operation of any public warehouse or public grain elevator to which this Section is applicable owned or otherwise controlled by the District which are entered into on or after July 1, 1955 shall be governed by the following procedure: Notice shall be given by the District that bids will be received for the operation of such public warehouse or public grain elevator..." (70 ILCS 181/5.02)(Emphasis added).

The public advertisement and competitive bid process described in (Section 5.02) applies only to the Port District's public warehouses and public grain elevators constructed prior to August 6, 1963. The public advertisement and competitive bid process does not apply to any other Port District structure. This is clear from the final sentence in (Section 5.02):

"This Section applies only to structures in existence on the effective date of this Amendatory Act of 1963. It does not apply to warehouses and grain elevators on which construction is completed after such date." (Emphasis Added).

Similarly, vacant land leases are not subject to the public advertisement and competitive bid process described in (Section 5.02). (Section 7) of the Port District Act confirms this:

"Also, the District, subject to the public bid requirements prescribed in section 5.02 [Par. 156.2J in respect to public warehouses or public grain elevators, may lease to others for any period of time, not to exceed 99 years, upon such terms as its Board may determine, any of its real property, rights of way or privileges, or any interest therein, or any part thereof, for industrial, manufacturing, commercial or harbor purposes, which is in the opinion of the Port District Board no longer required for its primary purposes in the

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

development of port and harbor facilities ... and such leases may contain such conditions and retain such interest therein as may be deemed for the best interest of the District by such Board. " (70 ILCS 1810/7).

The fact that the legislature specifically limited advertisement and competitive bidding and to the Port District's grain elevators and public warehouses and to no other Port District structure, facility or properties reinforces the legal conclusion that the Port District is not required to advertise and publicly bid leases for vacant real estate.

This conclusion is supported by and consistent with established Illinois case law as cited in the case of *People vs. Daley*, 22 Ill.App.2d 87, 159 N.E.2d 18 (1959):

"In the absence of some statutory provision, competitive bidding is not an essential prerequisite to the validity of contracts by and with public bodies. A statute requiring bids is "restrictive" and will not be extended beyond the language used. The court must take the statute as it finds it. It can neither add to, nor subtract from it. It is the court's duty to construe it as it stands." Id. at 20.

The restrictive language of (Section 5.02) and (Section 7) of the Port District Act limits advertisement and public bidding of leases to public grain elevators and warehouses constructed prior to 1963; it does not apply to the Port District facilities constructed after 1963 or to its unimproved land.

ILLINOIS MUNICIPAL CODE

The Illinois Municipal Code does not apply to the Illinois International Port District. By definition the Port District is not a municipality subject to the provisions of the Illinois Municipal Code:

"Municipal or Municipality does not include a township, town when used as the equivalent of a township, incorporated town which superseded a civil township, county, school district, park district, sanitary district, or any other similar governmental district." (65 ILCS 5/1-1-2)

In addition, Section 27 of the Port District Act provides that the Illinois Municipal Code is subordinate to the provisions of the Port District Act and to the extent that the Acts conflict or grant substantially the same powers, the Port District Act controls.

"The provisions of the Illinois Municipal Code, as heretofore and hereafter amended, shall not be effective within the area of the District insofar as the provisions of said act conflict with the provisions of this Act or grants substantially the same powers to any municipal corporation as are granted to the District by this Act." (70 ILCS 1810/27).

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

Section 7 of the Port District Act provides the Port District may lease its real estate to others for any period of time, not to exceed 99 years, upon such terms as the Board deems to be in the District's best interest. Section 7 gives the Port District the power to lease its vacant land without advertising and bidding. Therefore the advertisement and competitive bidding requirements described in (65 ILCS 5/11-76-2) do not require the Port District to advertise and competitively bid leases for its vacant land. *People vs. Daley, supra.*

CONCLUSION

We have reviewed the Port District Act and The Illinois Municipal Code. Under these statutes the Port District is only required to advertise and competitively bid contracts or leases for the operation of its public warehouses and grain elevators constructed prior to 1963. Leases and contracts for the operation of:

1. Port District facilities other than grain elevators and public warehouses,
2. Port District grain elevators or public warehouses constructed after 1963, or
3. Vacant, unimproved land

are not subject to the advertisement and public bid requirements specified in the above statutes.

#16

LEASE HOLDOVER AND REASSIGNMENT	
RECOMMENDATION 16	<i>The District should consider updating and signing lease agreements with those tenants currently utilizing holdover provisions in their leases or seek out new tenants. The District should ensure that any new lease agreements are at market rates. The District should also consider utilizing lease and sublease reassignments as an opportunity to renegotiate lease terms in the future.</i>
DISTRICT RESPONSE	

#17

The Board at this time is reviewing proposals regarding the possibility of a Master Lease structure at the District. That process will likely moot this issue by transferring this responsibility to a private operator.

#18

AUDITOR COMMENTS

Auditor Comment #16

While the Port District Act only **requires** competitive bidding for certain types of purchases, **it does not prohibit** competitive procurement in other purchases. Competitive procurement is generally considered to be good public policy and helps promote transparency in government operations.

Auditor Comment #17

For Recommendations 5, 6, 7, 16, 19, and 21, the District included a recommendation from an earlier draft of the audit report. That recommendation has been changed, which is now in the final report.

Auditor Comment #18

Simply transferring responsibilities to a private operator does not obviate the Board's responsibility to ensure that leases are managed properly and effectively.

IIPD RECOMMENDATION RESPONSES

COMPLIANCE WITH LEASE TERMS	
RECOMMENDATION 17	<i>The District should monitor lease agreements to ensure that tenants are complying with terms.</i>
DISTRICT RESPONSE	

The IIPD agrees. The District has directed staff to review and ensure compliance with lease terms and will continue to monitor leases.

SUBLEASES	
RECOMMENDATION 18	<i>The District should require all subleases to be filed with and approved by the District.</i>
DISTRICT RESPONSE	

The District stopped allowing the ability to sublease with new tenants several years ago; however, older leases which allowed subleases do not require filing a copy with the District. The Port will continue to review all subleases and assignments as per lease documents.

INVOICE PROCESS	
RECOMMENDATION 19	<i>The District should establish an invoice process in which invoices are sent to tenants in a timely manner prior to the date payment is due and that rent owed is timely collected. The District should also ensure that all payments and receipts are date stamped when received.</i>
DISTRICT RESPONSE	

#19

AUDITOR COMMENTS

Auditor Comment #19

For Recommendations 5, 6, 7, 16, 19, and 21, the District included a recommendation from an earlier draft of the audit report. That recommendation has been changed, which is now in the final report.

IIPD RECOMMENDATION RESPONSES

The IIPD agrees. The District previously established a process for invoicing tenants in a timely manner. All payments and receipts are currently date stamped.

TONNAGE REPORTS AND RECORD REVIEWS	
RECOMMENDATION 20	<i>The District should require all tenants to submit periodic reports regarding tonnage, dockage, and wharfage. In addition, the District should conduct periodic inspections of tenant records to verify reported amounts.</i>
DISTRICT RESPONSE	

The IIPD agrees. The District has implemented procedures by which those tenants not submitting monthly reports are being asked to comply. In addition, staff will make inspections of tenant records to verify amounts reported.

PORT POLICIES AND PROCEDURES	
RECOMMENDATION 21	<i>The District should update the rules and regulations for use of the port and should establish written policies for leasing facilities.</i>
DISTRICT RESPONSE	

#20

The IIPD takes this recommendation seriously. The Board reviews and updates these policies and procedures when necessary; however the Board is currently investigating a master lease which would moot this recommendation by transferring this function to a private operator.

#21

AUDITOR COMMENTS

Auditor Comment #20

For Recommendations 5, 6, 7, 16, 19, and 21, the District included a recommendation from an earlier draft of the audit report. That recommendation has been changed, which is now in the final report.

Auditor Comment #21

Simply transferring responsibilities to a private operator does not obviate the Board's responsibility to ensure that adequate policies and procedures exist regarding the leasing of its facilities.

IIPD RECOMMENDATION RESPONSES

PERSONNEL POLICIES	
RECOMMENDATION 22	<i>The District should update its personnel policies and job title descriptions for District employees. The District should also require annual performance evaluations of all employees.</i>
DISTRICT RESPONSE	

The IIPD agrees. The District will implement a more formal review for its future performance evaluations of employees.

TIMEKEEPING SYSTEM	
RECOMMENDATION 23	<i>The District should establish a formal timekeeping system for employees of the District.</i>
DISTRICT RESPONSE	

The IIPD agrees. The District has implemented a more detailed system to comply with this recommendation. The District now has a formal timekeeping system in place. All Port District employees are salaried, and “absence reporting” for the small staff adequately tracks time.

VACATION PAYOUTS	
RECOMMENDATION 24	<i>The District should either discontinue the practice of annual vacation payouts for the Executive Director or revise his contract to permit such payments.</i>
DISTRICT RESPONSE	

AUDITOR COMMENTS

IIPD RECOMMENDATION RESPONSES

In 2010 and 2011, the IIPD Board made a business determination to begin to pay down the Executive Director’s unused vacation time in order to avoid a substantial lump-sum payment. He was entitled to that payment under the terms of the contract that was then in place. Since that contract expired in January 2013, the Executive Director has been an at-will employee, subject to the same District personnel policies as other District employees. The IIPD is examining the question of whether those payments would be included in the Executive Director’s pension calculation.

#22

PERSONNEL FILE	
RECOMMENDATION 25	<i>The District should ensure that a complete personnel file is kept for each employee.</i>
DISTRICT RESPONSE	

The IIPD agrees. The District is updating personnel files to comply with this recommendation as appropriate.

SUBMISSION OF PAYMENTS, REPORTS, AND AUDITS	
RECOMMENDATION 26	<i>The District should ensure that monthly payments and required reports are submitted in accordance with contractual agreements. The District should also consider utilizing provisions within the contracts to charge interest on late payments.</i>
DISTRICT RESPONSE	

The IIPD agrees. The District will continue to review for compliance in the future. In 2012, after the Chairman learned that the 19th Hole Grill had not been making timely payments, Staff directed the restaurant to ensure compliance with the timing requirements contained in

AUDITOR COMMENTS

Auditor Comment #22

Although the Executive Director's employment agreement provided for payment of unused vacation days, it did not provide for payments while the Executive Director was still employed. Also the District's response that it is examining whether the vacation payouts would be included in the Executive Director's pension calculation differs from the response they provided auditors during the audit which was, **“the annual vacation payouts to the Executive Director can be considered income toward the final salary on which the pension will be calculated** if they were distributed in the five years prior to retirement.” (emphasis added)

IIPD RECOMMENDATION RESPONSES

its contract. That contract has since been assigned to KS Harborside, as part of its agreement to manage Harborside.

AUDITOR COMMENTS