STATE OF ILLINOIS
EAST ST. LOUIS FINANCIAL ADVISORY AUTHORITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2010

COMPLIANCE EXAMINATION
FOR THE TWO YEARS ENDED JUNE 30, 2010

PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

State of Illinois—East St. Louis Financial Advisory Authority
Financial Audit and Compliance Examination
For the year ended June 30, 2010

Table of Contents

Administration

Executive Director	Ms. Patrice R. Rencher
Financial Analyst	
(June 16, 2008 – November 28, 2008)	Mr. Kerry Olden
(November 29, 2008 – February 16, 2009)	VACANT
(February 17, 2009 – Current)	Mr. Brandon Drake
Legal Counsel	Mr. Robert Bassett

Authority office is located at:

Kenneth Hall State Regional Office Building
10 Collinsville Avenue
Suite 202
East St. Louis, Illinois 62201

CITY OF EAST ST. LOUIS
FINANCIAL ADVISORY AUTHORITY

(An Agency of the State of Illinois)

January 21, 2011

Schorb & Schmersahl, LLC
518 North Main Street
Columbia, IL 62236

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all respects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the two-year period ended June 30, 2010. Based on this evaluation, we assert that during the years ended June 30, 2009 and June 30, 2010, the Agency has materially complied with the assertions below.

A. The agency has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The agency has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours very truly,

East St. Louis Financial Advisory Authority

Patrice Rencher 1-31-2011

Patrice R. Rencher
Executive Director

Ofl: 618-583-2070 or 618-583-2071•State Regional Office Building - 10 Collinsville Ave. - Room 202 - East St. Louis, Illinois 62201•Fax: 618-583-2072

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance on Internal Control Over Compliance and on Supplemental Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	12	7
Repeated Findings	5	3
Prior recommendations implemented or not repeated	2	4

Details of audit findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
Findings (*Government Auditing Standards*)			
10-1	11 - 13	Inappropriate Expenditure of Funds	Material Weakness Noncompliance
10-2	14 - 18	Inappropriate Severance Payout	Material Weakness Noncompliance
10-3	19	Inadequate Reconciliation of Investment Statements to General Ledger	Significant Deficiency Noncompliance
10-4	20 - 21	Inadequate Controls over Financial Reporting	Significant Deficiency Noncompliance
10-5	22 - 23	Inadequate Segregation of Duties	Significant Deficiency Noncompliance
Findings (State Compliance)			
10-6	24	Lack of Expenditure Reconciliation	Significant Deficiency & Noncompliance

SCHEDULE OF FINDINGS *(continued)*

Item No.	Page	Description	Finding Type
10-7	25 - 26	Contracts not in Compliance with Municipal Code	Significant Deficiency & Noncompliance
10-8	27 - 28	Non Compliance with the Illinois Public Funds Investment Act	Significant Deficiency & Noncompliance
10-9	29 - 30	Locally Held Funds in Excess of Federally Insured Limits	Significant Deficiency & Noncompliance
10-10	31 - 32	Open Meetings Act	Significant Deficiency & Noncompliance
10-11	33 - 34	Inadequate Contract Provisions	Significant Deficiency & Noncompliance
10-12	35	Non Compliance with Illinois Municipal Code	Significant Deficiency & Noncompliance

Prior Findings Not Repeated (State Compliance)

A	36	Failure to File Economic Interest Statements
B	37	Improper Calculation of Accrued Vacation at Separation

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on December 29, 2010. Attending were:

East St. Louis Financial Advisory Authority

Marvin Lampkin	Board of Directors Chairman
Patrice R. Rencher	Executive Director
Robert Bassett	Legal Counsel
Jennifer Wilson	Administrative Assistant

Office of the Auditor General

Kathy Lovejoy	Audit Manager

Schorb & Schmersahl, LLC

James R. Schmersahl	Audit Partner
Maureen E. Downs	Audit Supervisor

Responses to the recommendations were provided by Patrice R. Rencher in a letter dated January 21, 2011

SCHORB & SCHMERSAHL, LLC
Certified Public Accountants
EUGENE J. SCHORB, CPA
JAMES R. SCHMERSAHL, CPA

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
East St. Louis Financial Advisory Authority
East St. Louis, Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined State of Illinois – East St. Louis Financial Advisory Authority's (the "Authority") compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2010. The management of the Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with the law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances.

518 North Main Street • Columbia, Illinois 62236 • 618-281-5195 • Fax 618-281-6101 • cpa@htc.net

We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Authority's compliance with specified requirements.

As described in finding 10-1 in the accompanying schedule of findings, the Authority did not comply with requirements regarding the use of its Locally Held funds and inappropriately expended funds it was not authorized to expend. As described in finding 10-2 in the accompanying schedule of findings, the Authority did not comply with requirements regarding the terms of applicable employment agreements, stated law regarding passage of resolution, and prudent use of State funds. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2010. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as Finding Code No.'s 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-11, and 10-12.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Authority's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as items 10-1 and 10-2 be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-11, and 10-12 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Authority's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 21, 2011. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. The 2010 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010 taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Authority's basic financial statements for the year ended June 30, 2008. In our report dated March 9, 2009, we expressed an unqualified opinion on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2008 (and 2006) Supplemental Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2008 (and June 30, 2006), taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Scheffel & Schomaker, LLC

Columbia, Illinois
January 21, 2011

SCHORB & SCHMERSAHL, LLC
Certified Public Accountants
EUGENE J. SCHORB, CPA
JAMES R. SCHMERSAHL, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
East St. Louis Financial Advisory Authority
East St. Louis, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois—East St. Louis Financial Advisory Authority (the "Authority"), a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-1 and 10-2 in the accompanying schedule of findings to be material weaknesses.

518 North Main Street • Columbia, Illinois 62236 • 618-281-5195 • Fax 618-281-6101 • cpa@htc.net

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 10-3, 10-4, 10-5, and 10-6 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 10-1, 10-2, 10-8, and 10-9. We noted other certain matters that we reported to management of the Authority in a separate letter dated January 21, 2011.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Schorb & Schmersahl, LLC

Columbia, Illinois
January 21, 2011

10-1 FINDING Inappropriate Expenditure of Funds

The East St. Louis Financial Advisor Authority ("Authority") inappropriately expended funds from locally held funds for the expenses of its daily operations.

In March 2010, the Authority exhausted the $120,000 appropriated to them from the General Assembly. From March until June 30, 2010, the Authority expended $139,814 from locally held funds for the payment of payroll, legal, and general operating costs.

In February 2010, House Bill 6299 was introduced to amend the State Finance Act to allow a special trust fund to be established in order for the Authority to continue to expend money for the day to day operations. However, the Bill did not pass; therefore, the Authority was not authorized to expend funds outside of the funds appropriated to them.

According to Illinois Municipal Code, Financially Distressed City Law (65 ILCS 5/8-12-6(c)) "Money in the revolving fund may be used by the Authority to support activities leading to a restructuring of the distressed city's debt and may be pledged by the Authority as a security for any new debt incurred by the distressed city with the approval of the Authority."

The Executive Director stated she had researched this issue and cited the Illinois Municipal Code, Financially Distressed City Law (65 ILCS 5/8-12-6(d)) "From any funds appropriated to the authority for the purpose of making a loan to a distressed city, the Authority may expend not more than $250,000 for the expenses of its operations in the fiscal year in which the appropriation was made" as a basis for the decision.

Noncompliance with Illinois Municipal Code is a violation of State statute. (Finding Code No. 10-1)

RECOMMENDATION

We recommend the Authority work with the General Assembly to obtain sufficient appropriations. Additionally, the Authority should implement appropriate controls to ensure the Authority operates within its appropriated budget.

AUTHORITY RESPONSE

We respectfully disagree that the City of East St. Louis Financial Advisory Authority inappropriately expended funds, from locally held funds, for the expenses of their daily operations.

The audit firm only referenced one provision within the Financially Distressed City Law as an authorized use of locally held funds. The Board of Directors requested that its legal counsel research the Financially Distressed City Law. The Executive Director did not research the law as stated by the audit firm. All legal interpretation came under the advisement and research of legal counsel. The Authority's legal counsel cited several provisions contained in the Illinois Municipal Code that permits the use of locally held funds and presented them to the Board of Directors. Those provision are: (1) Section 5/8-12-6(b)(6), as the law provides for the Authority to have the power necessary to meet its responsibility to carry out its powers and purposes, including paying the expenses of its operations.

10-1 FINDING Inappropriate Expenditure of Funds *(Continued)*

AUTHORITY RESPONSE *(Continued)*

Subsection (b) of Section 5/8-12-6 is an allowable condition for the use of the locally held funds, as well as, Subsection (c) of Section 5/8-12-6, which provides for the use to support the activities leading to the restructuring of the distressed City's debt.

The Financially Distressed City Law states that the Authority is not abolished until 30 days after the City's Debt Restructuring Bonds are paid off as referenced in Subsection (c) of Section 5/8-12-22 in the Financially Distressed City Law. According to the City's Debt Restructuring Schedule the final bond payment is not scheduled until November 2014.

Upon verbal and written recommendation of the legal counsel, the Board of Directors on February 26, 2010, unanimously approved, by resolution, the transfer of $250,000 to pay for the personnel and operating expenses of the agency as applicable within the provisions outlined in the Financially Distressed City Law.

The audit firm did not provide an explanation as to why their interpretation of the law was accurate and the interpretation presented by the Authority's legal counsel was inaccurate.

<u>Chairman Lampkin's Response</u>
I was not a part of the board when this decision was made. However, I am in agreement with the Board's decision based on my discussions with the agency's legal counsel.

AUDITOR'S COMMENT

Section 8-12-5 of the Financially Distressed City Law designates the Authority as "an agency of State government." [65 ILCS 5/8-12-5] As a State agency, the Authority is a creature of statute and its powers emanate from those expressly granted to it by statute. In this case, the Law provides that the Authority may use "amounts appropriated by the General Assembly" to carry out its statutory responsibilities. [65 ILCS 5/8-12-5] Further, the Illinois Constitution of 1970 sets forth the general principle that "[t]he General Assembly by law shall make appropriations for all expenditures of public funds by the State."

The General Assembly appropriated a sum total of $120,000 for the Authority's FY10 operations. In February, 2010, the Authority's Board authorized the transfer of $250,000 from an investment account to a locally-held bank account for the purpose of paying "personnel and operating expenses." Also in February 2010, HB 6299 was introduced. On April 30, 2010, HB6299 was defeated in the Senate. At its May, 2010 Board meeting, members discussed the failure of HB6299. According to minutes of that meeting, one director inquired whether "the State could come back and say that this is an area where funds should not have been utilized."

In fact, the Authority expended $139,814 from the locally-held fund in FY10 for agency operations. $55,976 of that amount was used for a "severance" payment to the Executive Director, as outlined in Finding 10-2. These expenditures were in addition to the $120,000 amount appropriated to the Authority by the General Assembly. In total, the Authority spent $259,749 for its FY10 operations.

10-1 FINDING Inappropriate Expenditure of Funds *(Continued)*

AUDITOR'S COMMENT *(Continued)*

At its May 21, 2010 Board meeting, the Executive Director discussed plans to expend further amounts from the locally-held bank account for its FY11 operations. At June 30, 2010, the Authority's investment account balance totaled $6.4 million. If the Authority continues to believe its expenditures are not limited to amounts appropriated by the General Assembly, we further recommend it obtain a formal written opinion from the Attorney General's Office regarding its authority to expend amounts from its investment account or other locally-held monies for operational and personnel expenses.

10-2 FINDING Inappropriate Severance Payout

The East St. Louis Financial Advisory Authority ("Authority")'s Board of Directors inappropriately paid the Executive Director $55,976 for "breach" of employment contract.

During the audit period, the Executive Director entered into two employment agreements with the Authority:

Employment Agreement One stated: • The Director was to perform the functions and duties specified in the Illinois Financially Distressed Cities Statute and such other duties as assigned by the Board of Directors. • Employer agreed to pay the Director a salary of $73,100 per year. • Employer agreed to enroll the Director into the applicable state or local retirement system and to make all appropriate contributions on the employee's behalf, for both the employer and employee share required. • Term of the contract was for three years. The Agreement could automatically renew for 12 months unless either party notified each other. • "If either party breaches any term of this Agreement, the non-breaching party shall so notify the breaching party in writing, specifying the breach. If the breach is not cured within 30 days, the non-breaching party may terminate this Agreement by giving written notice to the breaching party." • "Severance shall be paid to the employee when employment is terminated (due to breach of contract by employer) …the employer shall provide a minimum severance payment equal to two months salary at the current rate of pay upon employee termination due to breach of contract by the employer."	The Agreement was effective June 1, 2009, but not signed until June 2, 2009.
Employment Agreement Two outlined the same terms as the June 1, 2009 terms, except for two provisions • The severance pay section was changed to provide minimum severance pay equal to six months at the current rate of pay upon employee termination due to breach of contract by the employer, and • The length of the contract was changed from three to four years.	Effective June 1, 2010, but not signed until June 9, 2010
The Executive Director requested payment from the Authority for vacation, retirement contributions, and six months of severance pay, totaling $55,976, based on the severance payment section of the June 1, 2010 Agreement. The request for severance was based on the Authority's inability to pay the retirement contributions due to insufficient appropriations.	Requested June 8, 2010

10-2 FINDING Inappropriate Severance Payout *(continued)*

During our review, we noted:

- There was no documentation indicating the Executive Director afforded the Authority formal written notification of the breach and an opportunity to cure it as required by the contract.
- The Authority paid the Executive Director $6,050.24 for the missed retirement contributions. However, the contract did not provide for payment of missed retirement contributions to the employee upon termination due to the breach, rather the employee was to be paid six months salary as severance, along with "all accrued vacation time and all paid holidays."
- Furthermore, as a component of the severance payment, the Authority paid the Executive Director $12,523.19 for 356.38 hours of accrued and unused vacation time. However, the auditors calculated the correct amount as $12,207.99 for 347.41 hours of accrued and unused vacation time.
- For purposes of the State's payroll system, the Executive Director was terminated on March 15, 2010. As discussed above, she was paid a severance amount of six months salary, but was reinstated to the State's payroll system on July 1, 2010, at the start of the next fiscal year. As a result, the Executive Director essentially received double salary for six months.
- According to the Illinois Municipal Code, 65 ILCS 5/8-12-12(b), "a majority of the Directors holding office shall constitute a quorum for the conduct of business. The affirmative votes of at least three Directors shall be necessary for adopting any rule or regulation, and for any other action required by this Division to be taken by resolution, directive, or ordinance." However, at the June 9, 2010 special meeting of the Board of Directors, the required three affirmative votes were not received.

Some of the conditions noted above, which led to the declaration of the breach and the resulting severance payment, were within the Executive Director's area of responsibility. For instance, the Executive Director is responsible for budgeting appropriated funds to cover all the full year's expenses and/or following necessary steps to obtain supplemental appropriations. Additionally, the Authority did not provide adequate documentation to demonstrate its attempts to make the missed retirement contributions directly to the State's Employee Retirement System or to otherwise avoid the circumstances which led to the Executive Director's termination, severance payment, and subsequent reinstatement.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

The lack of controls increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur. (Finding Code No. 10-2)

10-2 FINDING Inappropriate Severance Payout *(continued)*

RECOMMENDATION

We recommend the Authority seek reimbursement from the Executive Director for the improper payments. Additionally, the Authority should implement appropriate controls to ensure the Authority operates within its budget.

The Authority's Board of Directors should ensure affirmative votes of three Directors is obtained for adopting any rules, regulations, or any other business as outlined in the Illinois Municipal Code.

AUTHORITY RESPONSE

We respectfully disagree. The City of East St. Louis Financial Advisory Authority did not inappropriately pay the Executive Director $55,976 for "breach" of employment contract.

The Authority concurs with your finding that the East St. Louis Financial Advisory Authority entered into an Employment Agreement with the Executive Director effective June 1, 2009. We also concur that a new employment agreement was entered into by the Board of Directors and the Executive Director effective June 1, 2010 and that the terms and conditions of the agreement were the same with the exception of the initial term of the contract and the severance provision.

The Authority's opinion differs from that of the auditor, in that, the finding states that the request for severance was based on the Authority's inability to pay the retirement contributions due to insufficient appropriations.

The Executive Director presented the Board of Directors with a proposal on how to cure the breach of contract on June 8, 2010, which was approved on June 9, 2010.

Section 4.5 of the employment agreement between the East St. Louis Financial Advisory Authority and the Executive Director states that "the Employer is to enroll the Executive Director into the applicable state or local retirement system and to make all the appropriate contributions on the Employer's behalf, for both the Employer and Employee share required." The Executive Director was no longer considered a State employee as of March 15, 2010, when the agency's State appropriation was exhausted; therefore, contributions could not be made to the State retirement system.

The Authority accepts that there was a calculation error of 8.97 hours; and concurs with the auditor's calculations for accrued and unused vacation time at 347.41 hours totaling $12,207.99 as a formula error was identified on the Authority's spreadsheet. The Authority will recoup time from the Executive Director for the 8.97 hours resulting in overpayment.

10-2 FINDING Inappropriate Severance Payout *(continued)*

AUTHORITY RESPONSE *(Continued)*

Upon discussion with the Board of Directors, the legal counsel drafted the resolution approving the payout to the Executive Director. The resolution approved by the Board of Directors states that the East St. Louis Financial Advisory Authority Board has agreed to make the Executive Director whole by continued payment of vacation time, retirement and severance while ensuring continuity of the agency. The Board also factored into the settlement the costs and savings of avoiding litigation. The Executive Director was paid out of the employment agreement and currently serves without a contract. There were no double payments made to the Executive Director.

We agree that a majority of the Directors holding office shall constitute a quorum for the conduct of business. The Board of Directors at the special meeting on June 9, 2010 had a quorum. There were three Board members in attendance and two out of the three Directors voted in favor of the payout. The legal counsel was present during the meeting of June 9, 2010. The Authority's legal counsel verbally acknowledged that the resolution passed. The resolution approved June 9, 2010 also has signatures from all three Directors seated on the Board at June 9, 2010. Furthermore, the action taken by the Directors on June 9, 2010 to approve the payout to the Executive Director was ratified by the approval of the minutes on June 25, 2010.

The Executive Director diligently acted to obtain supplemental appropriation from the State of Illinois. The Executive Director consistently informed local State of Illinois Representatives, State Senators, the Governor's Office, the Budget Office, the House of Representatives, Senate and House Majority Leaders, and the Speaker of the House of inadequate state funding as documented in letters sent throughout the 2010 fiscal year. The Executive Director and the Vice-Chair of the Board made several trips to Springfield to meet with State officials to seek additional funding. The Executive Director aggressively sought supplemental funding, but to no avail. The audit firm is in receipt of six letters sent to State officials requesting assistance with the agency's budget. However, the Executive Director was instructed by the Vice-Chair to continue to operate with all three (3) employees while seeking budget relief.

Chairman Lampkin's Response

I was not a part of the Board when this decision was made. However, it is my opinion that the previous Board should assume full responsibility for the decision to pay Ms. Rencher the severance payment. This resolution was initiated and voted on by the Board.

AUDITOR'S COMMENT

As stated in the finding, the Executive Director was terminated from the State's payroll on March 15, 2010. At that time the Executive Director was under an employment agreement dated June 1, 2009, not the June 1, 2010 employment agreement.

10-2 FINDING Inappropriate Severance Payout *(continued)*

AUDITOR'S COMMENT *(Continued)*

The June 1, 2009 employment agreement stated the "breach of contract declared by either party with a 30 day cure period of either Employee or Employer. Written notice of a breach of contract shall be provided." The Executive Director did not provide the Authority's Board written notification in order to cure the breach. The Executive Director stated on June 8, 2010 she presented to the Board of Directors a proposal on how to cure the breach of contract. However, the proposal was actually the severance calculation determined by the Executive Director. The proposal did not outline the breach or provide the Board the opportunity to cure the breach.

The June 1, 2009 employment agreement stated the Executive Director was only entitled to two months severance pay and all vacation and holiday pay in the event of termination due to breach of contract. However, the Executive Director received six months severance pay, and vacation and holiday pay per the retroactive June 9, 2010 agreement. In addition, she also received the missed retirement payments, which were not provided as a component of severance pay in either contract.

Further, the Authority stated "there were no double payments made to the Executive Director." However, the Executive Director continued to receive her monthly salary from March 15, 2010 to June 30, 2010, in addition to the six month severance payment. The monthly salary payments were part of the $139,814 spent from the Authority's locally-held funds (See Finding 10-1).

Finally, the Law provides that the "affirmative votes of at least 3 Directors shall be necessary for adopting any rule or regulation, and for any other action required by this Division to be taken by resolution, directive or ordinance." In fact, as the Authority states in its response, only 2 Directors voted for the payout at the June 9, 2010, special meeting.

10-3 FINDING Inadequate Reconciliation of Investment Statements to General Ledger

The East St. Louis Financial Advisory Authority ("Authority") did not appropriately reconcile its investment statements to the general ledger.

The Authority prepares investment analyses on a quarterly basis for reporting purposes and enters the investment data into the general ledger. However, the Authority does not update its accounting records to reflect the monthly change in fair market value. The investment balances at June 30, 2009 and 2010 were $6,543,791 and $6,488,794, respectively.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all State agencies shall establish and maintain a system or systems, of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

The Executive Director stated reconciliations are being completed, albeit not on a timely basis. Investment statements, which include balances and reported income for the period, are presented to the Board for approval on a monthly basis. However, an analysis of income is not presented.

A lack of internal controls increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur and would not be found in the normal course of business. (Finding Code No. 10-3, 08-1, 06-1, 04-1)

RECOMMENDATION

We recommend the investment account be reviewed and reconciled monthly to the general ledger so that the ending balance of the investment statement agrees to the ending balance per the general ledger as well as income analysis reports given to the Board on a quarterly basis. This procedure should be done in order to obtain information that would allow the Authority to make investment decisions and provide for the maximization of return on its investments.

AUTHORITY RESPONSE

We agree. The investment account will be reviewed and reconciled monthly to the general ledger so that the ending balance of the investment statement agrees to the ending balance per the general ledger as well as income analysis reports given to the Board on a quarterly basis.

10-4 FINDING Inadequate Controls over Financial Reporting

The East St. Louis Financial Advisory Authority ("Authority") did not ensure financial records used to prepare the year-end financial statements and the Office of the Comptroller Generally Accepted Accounting Principles (GAAP) packages were accurate.

During our review we noted:

- The Authority recorded all cash disbursements from its Locally Held Fund using the date the check was posted to the bank account. Upon review of Accounts Payable during financial audit procedures, we noted $37,217 of the Accounts Payable recorded should be classified as Outstanding Checks. The effect was current assets and current liabilities were overstated by $37,217.

- The Authority provided a schedule of pay rates and hourly balances related to Compensated Absences to an external firm who prepares the annual submission on behalf of the Authority; however, the firm did not take into consideration the payout of 356.38 accrued and unused vacation hours to the Executive Director. The Executive Director did not review the report in appropriate detail to catch the error, thus Compensated Absences was overstated by $14,378 at June 30, 2010.

The Authority is required to prepare financial statements of its financial activity to comply with the reporting requirements set forth by the Office of the Comptroller. It is the responsibility of the Authority to maintain their records such that they are free of material errors and omissions.

In addition, the Fiscal Control and Internal Auditing Act, (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfer of assets, resources or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Authority personnel stated cash disbursements were not recorded properly due to clerical error. Authority management reviews numerous transactions and activities throughout the fiscal year and attributed the failure to identify this error to oversight.

Inadequate controls over maintaining accurate financial records prevents the Authority from preparing financial statements in accordance with GAAP and results in inaccurate and incomplete financial information. (Finding Code No. 10-4)

RECOMMENDATION

We recommend the Authority designate an individual with suitable skill, knowledge, or experience to ensure the financial information is properly recorded and accounted for to permit the accurate preparation of financial information.

10-4 Inadequate Controls over Financial Reporting *(continued)*

AUTHORITY RESPONSE

We agree. The Authority will designate an individual to gain the skills necessary to accept responsibility for functions related to the financial statements and the related notes. The Authority has submitted a revised GAAP Package to the Comptroller's Office and we will ensure future GAAP Package submissions are materially correct.

The Authority engages a local external CPA firm to compile its annual GAAP Package for submission to the Comptroller. The schedule of pay rates and hourly balances for Compensated Absences were given to the external CPA firm; however, the firm did not take into consideration the payout of 356.38 accrued and unused vacation hours submitted by the Executive Director.

Please note that the audit firm did not find any material discrepancies in the June 30, 2009 GAAP Package submission.

10-5 FINDING Inadequate Segregation of Duties

The East St. Louis Financial Advisory Authority ("Authority") lacks a segregation of duties in its accounting and financial procedures.

The Authority currently has three employees. Because of the limited number of personnel, the Authority's cash and investment receipts and disbursement procedures often require that one individual be responsible for duties that should be performed by at least two people. In several instances the payments, reimbursements, vacation requests, and payroll made to the Executive Director were not approved or reviewed by a supervisor and the Executive Director. In other instances, the Executive Director's reimbursements, vacation requests and payroll were not approved by anyone other than the Executive Director.

Additionally, the Executive Director signed as approver on various reports for the Vice Chair of the Board.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all state agencies shall establish and maintain a system or systems, of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Authority personnel indicated that achieving adequate segregation of duties is extremely difficult because the utilization of additional personnel is not a viable option due to limited appropriations.

A lack of adequate segregation of duties increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur and would not be found in the normal course of business. (Finding Code No. 10-5, 08-2, 06-3)

RECOMMENDATION

We recommend the Authority segregate the duties of receipts and disbursements to enhance internal controls over the processes. In addition, as a compensating control, the Board of Directors should be involved in reviewing transactions and monthly financial reports, including expenditure reports.

We further recommend that a member of the Board of Directors approve all employment based transactions that are incurred by the Executive Director. Payroll should be reviewed (and evidence of that review should be explicit) immediately following any payroll change and randomly (but regularly) requested subsequent to that date.

10-5 FINDING Inadequate Segregation of Duties *(Continued)*

AUTHORITY RESPONSE

We agree. It is difficult to segregate duties with only three employees. However, the Board of Directors reviews, accepts and approves all transactions of the Authority by resolution on a monthly basis with the exception of the agency's payroll and vacation requests. The City of East St. Louis Financial Advisory Authority Personnel Policies and Procedures designates the Executive Director to sign payroll vouchers for the agency.

The Chair authorized the Executive Director to sign commercial (travel/non-travel), payroll/contractual payroll/retirement and C-02 vouchers as provided for by signature authorization cards (Form SCO-095).

10-6 FINDING Lack of Expenditure Reconciliation

The East St. Louis Financial Advisory Authority ("Authority") does not reconcile its expenditures details to the Comptroller's records.

During our review, we noted the Authority reconciled in total with the Comptroller's Monthly Appropriation Status Report (SB01) and the Object Expense/Expenditures by Quarter Report (SA02). The Authority did not reconcile each detailed object code to the Comptroller's reports.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

The Authority lacks the appropriate systems and procedures to perform the monthly reconciliations by detail object code.

A lack of internal controls increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur and would not be detected in the normal course of business. (Finding Code No. 10-6, 08-6)

RECOMMENDATION

We recommend the Authority reconcile the Register Reports to the Comptroller's Object Expense/Expenditures by Quarter Report (SA02) on a monthly basis by detail object code and correct any discrepancy found.

AUTHORITY RESPONSE

We agree. The Authority did lack expenditure reconciliation, in that, in FY 2010 there was one discrepancy in expenditure reconciliation where one (1) detail object code out of the total ninety-eight (98) vouchers processed that year was incorrectly assigned.

The Authority will reconcile the Register Reports to the Comptroller's Object Expense/Expenditures by Quarter Report (SA02) on a monthly basis by detail object code and correct any discrepancies found.

10-7 FINDING Contracts not in compliance with Illinois Municipal Code

Contracts entered into by the City of East St. Louis and approved by the East St. Louis Financial Advisory Authority ("Authority") do not include provisions as mandated by Illinois Municipal Code (65 ILCS 5/8-12-17).

During our review of contracts, we noted:

- 10 out of 25 contracts tested (40%) did not include the required provision regarding the binding effect of the contract, and
- 25 out of 25 contracts tested (100%) did not include the provision regarding the reason why a contract can be approved. In the Authority's resolutions approving the contracts, the Authority consistently approved the contract subject to a condition that the contractor acknowledge "that the obligations of the City to make payments under this contract are specifically conditioned and limited to funds established for the purpose in the budget, which has been duly adopted by the City Council and approved by the East St. Louis Financial Advisory Authority." There is no evidence that the contractors accepted the conditions of approval.

According to the Illinois Municipal Code (65 ILCS 5/8-12-17), "Each contract or other obligation that is entered into by the financially distressed city and that requires approval by the Authority shall contain a provision stating (i) that it shall not become legally binding on the city unless and until it has received the approval of the Authority, and (ii) that the Authority shall approve the contract if, in the Authority's judgment, the information required to be submitted is complete with respect to the contract or other obligation being an authorized expenditure within the Financial Plan and Budget and the contract or other obligation is consistent with the Financial Plan and Budget in effect."

The Authority was not aware that attaching the resolutions to the contracts was not sufficient to satisfy this Section of the Illinois Municipal Code.

Without the necessary provisions written into the contracts and agreed by the City and the contractor, as documented by the appropriate signatures, the contracts may have a binding effect even though the City does not have the authority to enter into contracts without the approval of the Authority. (Finding Code No. 10-7)

RECOMMENDATION

We recommend the Authority communicate with the City that the provisions mandated in the Illinois Municipal Code be written into all contracts entered into by the City and subject to approval by the Authority. We also recommend that the Authority cease approving contracts that lack the mandatory provisions.

10-7 FINDING Contracts not in compliance with Illinois Municipal Code *(Continued)*

AUTHORITY RESPONSE

We agree. On November 23, 2010, City officials were given notice to incorporate the provisions mandated in the Illinois Municipal Code to be written into all contracts entered into by the City that are subject to approval by the Authority.

City contracts requiring Authority approval are approved by resolutions, which provides for the mandatory provisions that were not included in City contracts in years past.

10-8 FINDING Noncompliance with the Illinois Public Funds Investment Act

The East St. Louis Financial Advisory Authority ("Authority")'s investment account for its Locally Held Fund violates the Illinois Public Funds Investment Act.

The Locally Held Funds within the Authority's investment portfolio include investments in mutual funds which were comprised of foreign debt securities and money market securities held in foreign banks. At June 30, 2010, these investments totaled $1,061,208.

According to the Public Funds Investment Act (30 ILCS 235/2), "Any public agency may invest any public funds as follows:

(1) in bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest;
(2) in bonds, notes, debentures, or other similar obligations of the United States of America, its agencies, and its instrumentalities;
(3) in interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act;
(4) in short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if
   a. such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 270 days from the date of purchase,
   b. such purchases do not exceed 10% of the corporation's outstanding obligations, and
   c. no more than one-third of the public agency's funds may be invested in short term obligations of corporations; or
(5) in money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations described in paragraph (1) or (2) of this subsection and to agreements to repurchase such obligations."

The Executive Director and the Board of Directors were not aware that its portfolio holdings include investments that depart from the Illinois Public Funds Investment Act.

Funds invested in securities which are not "guaranteed by the full faith and credit of the United States of America as to principal and interest" are more volatile and could result in loss of funds. (Finding No. 10-8)

10-8 FINDING Noncompliance with the Illinois Public Funds Investment Act *(continued)*

RECOMMENDATION

We recommend that the Authority be cognizant of its investments and work with its Investment Advisor to place its investments in appropriate types of mutual funds or other investments, as defined by the Illinois Public Funds Investment Act.

AUTHORITY RESPONSE

We agree. The Authority will be more cognizant of its investments by placing its investments in appropriate types of mutual funds other investments as defined by the Illinois Public Funds Investment Act.

The Executive Director sent a written request to the Investment Manager in January 2009 directing that all funds be consistent with the Illinois Public Funds Investment Act and believed the issue had been remedied based upon a similar audit finding at June 30, 2008. The Investment Manager indicated that there was a change in management which resulted in the agency's request not being implemented. On October 22, 2010, a meeting was held with the Executive Director, Board of Directors and the new Investment Manager to discuss the Illinois Public Funds Investment Act.

All funds are currently compliant with the Illinois Public Funds Investment Act as a result of the discussions held during the meeting.

10-9 FINDING Locally Held Fund in Excess of Federally Insured Limit

The East St. Louis Financial Advisory Authority ("Authority") had a locally held fund that was in excess of the federally insured limit during the two years ended June 30, 2010.

At June 30, 2010, the Authority held the following investments: Cash of $19,575, Bank Deposit Sweep of $32,336, US Treasury Notes of $3,355,334, and Mutual Funds of $3,081,549, of which $701,124 (11%) was uncollateralized.

Specifically, we noted the Bank Deposit Sweep is covered by FDIC and the US Treasury Notes were backed by the full faith and trust in the Federal Government. In addition, the Authority's investment manager maintained additional insurance coverage of $1.9 million through London Underwriters and other insurance companies rated 'A' or better by A.M. Best.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all state agencies establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation. Further, the State Officers and Employees Money Disposition Act (30 ILCS 230/2c) requires that a bond, pledged securities, or other eligible collateral be obtained whenever funds deposited with a bank or savings and loan association exceed the amount of Federal deposit insurance coverage.

The Executive Director stated she believed the funds to be fully collateralized as this was requested of the investment manager.

Without appropriate collateralization, the Authority's funds are at risk and would be vulnerable if the depositories were to fail. (Finding Code No. 10-9, 08-7)

RECOMMENDATION

We recommend that the Authority reduce its risk by obtaining collateral for the amounts in excess of federal insurance or invest in government backed obligations. If that is not feasible, then the locally held fund should be limited to the FDIC insured amount.

AUTHORITY RESPONSE

We agree. The Authority agrees that 11% of its locally held funds were not collateralized. The Executive Director sent a written request to the Investment Manager in January 2009 instructing that all funds be collateralized and believed that it was done. The new Investment Manager indicated that a change in management resulted in the oversight of the funds not being collateralized.

10-9 FINDING Locally Held Fund in Excess of Federally Insured Limit *(Continued)*

AUTHORITY RESPONSE *(Continued)*

A meeting was held on October 22, 2010 with the Executive Director, Board of Directors and the Investment Manager to address the occurrence of the uncollateralized funds. The meeting resulted in all investments currently being collateralized.

The Authority did not incur any losses in connection with the uninsured funds.

10-10 FINDING Open Meetings Act

The East St. Louis Financial Advisory Authority ("Authority") did not maintain written minutes or audio/visual recordings of the closed meetings held during the audit period as required by the Open Meetings Act.

During the two years ended June 30, 2010, the Authority held eight closed session meetings and maintained audio documentation on one meeting. This documentation was solely the audio recording as no written closed session meeting minutes were maintained.

According to the Open Meetings Act (5 ILCS 120.206), "All public bodies shall keep written minutes of all their meetings, whether open or closed, and a verbatim record of all their closed meetings in the form of an audio or video recording. Minutes shall include, but need not be limited to:

(1) the date, time and place of the meeting;
(2) the members of the public body recorded as either present or absent and whether the members were physically present or present by means of video or audio conferences; and
(3) a summary of discussion on all matters proposed, deliberated, or decided, and a record of any votes taken."

The Executive Director stated, based on legal advice, she believed there was no requirement to record and maintain all Executive Session meetings due to the confidential nature of discussions held during closed sessions.

Noncompliance with the Open Meetings Act is a violation of State statute. (Finding Code No. 10-10)

RECOMMENDATION

We recommend that the Authority staff receive training on the Open Meetings Act and begin audio/video recordings of all closed session meetings as well as provide a written record to be approved by the Board of Directors. These files should be maintained according to the guidelines set forth in the Open Meetings Act.

AUTHORITY RESPONSE

We agree. The Authority did not have all seven (7) of its closed session meetings audio/video recorded. However, the Authority does have all written minutes of the closed sessions that were approved by the Board of Directors.

The Executive Director explained that under the advisement of legal counsel, closed session meetings are only to be released for the purpose of litigation due to their confidential nature. The Executive Director never stated that she believed that there was no requirement to record and maintain all Executive Session meetings due to the confidential nature of discussions held during closed meetings.

10-10 FINDING Open Meetings Act *(Continued)*

AUTHORITY RESPONSE *(Continued)*

However, Authority staff will begin audio/video recordings of all closed session meetings as well as provide a written record to be approved by the Board of Directors.

10-11 FINDING Inadequate Contract Provisions

The East St. Louis Financial Advisory Authority ("Authority") legal contract did not contain the required provisions.

During our review of the legal contract, we noted:
The contract did not contain provisions as required by statute. Specifically, the contract did not contain the following provisions:

- Appropriation Contingency Clause as required by 30 ILCS 500/20-60(b). The Act states, "Subject to appropriation. All contracts made or entered into shall recite that they are subject to termination and cancellation for any year in which the General Assembly fails to make an appropriation to make payments under the terms of this contract."
- Drug free workplace certification as required by 30 ILCS 580. The Act requires the employer to provide a drug free workplace and for the employer and employees not to engage in unlawful manufacturing, distribution, dispensation, possession or use of a controlled substance during the performance of the contract.
- State Board of Elections Certification as required by 30 ILCS 500/20-160(b). The Act states "every bid submitted to and every contract executed by the State on or after the effective date of this amendatory Act of the 95th General Assembly shall contain (1) a certification by the bidder or contractor that either (i) the bidder or contractor is not required to register as a business entity with the State Board of Elections pursuant to this Section or (ii) the bidder or contractor has registered as a business entity with the State Board of Elections and acknowledges a continuing duty to update the registration and (2) a statement that the contract is voidable under Section 50-60 for the bidder's or contractor's failure to comply with this Section."

In addition, the contract terms were January 1, 2009 through January 1, 2010; however, the legal counsel continued to provide services. The Authority paid $5,537 for services after January 1, 2010.

Also, the contract stated the "Authority shall pay One Hundred Sixty-Five Dollars ($165) per hour for all services to be performed by the Contractor under this Agreement and shall reimburse Contractor for all expenses incurred under this Agreement, but solely from funds provided by appropriations by the State of Illinois to the Authority." However, as stated in Finding 10-1, the Authority exhausted their appropriations in March 2010. The Authority paid $5,537 from locally held funds.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all state agencies establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Authority personnel stated the continued of legal services subsequent to January 2, 2010 without a contract was an oversight. Authority personnel stated they believed the clauses and provisions did not apply to this contract.

10-11 FINDING Inadequate Contract Provisions *(continued)*

A lack of internal controls increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur and would not be detected in the normal course of business. (Finding Code No. 10-11)

RECOMMENDATION

We recommend the Authority implement a contract with its existing legal counsel that includes all clauses and provisions as required by State statutes. The Authority should ensure payment is made in accordance with the terms of the contract.

AUTHORITY RESPONSE

We agree. The Authority will implement a contract with its existing legal counsel that includes all clauses and provisions as required by State statutes. The Authority will ensure payment is made in accordance with the terms of the contract.

10-12 FINDING Noncompliance with Illinois Municipal Code

The East St. Louis Financial Advisory Authority ("Authority")'s Board of Directors does not have the required number of members.

During the period July 1, 2008 to May 31, 2010, the Board of Directors consisted of four members. On May 31, 2010, one Director was not replaced after he resigned. Therefore, from June 1, 2010 to June 30, 2010, the Board consisted of three members, all of whom are currently serving on expired terms. The term of two Directors expired on August 30, 2005. The term of the third expired August 30, 2004. In addition, the Board chairperson resigned on January 27, 2005 and has not been replaced. As a result, the Board's Vice chairperson presides over meetings.

The Illinois Municipal Code (65 ILCS 5/8-12-7) states that the Governing body of the Authority shall be a board consisting of five Directors. Directors shall be appointed by the Governor, with the advice and consent of the Senate. The Governor shall select one of the Directors to serve as Chairperson during the term of his or her appointment. In addition, Section (65 ILCS 5/8-12-9) requires the chairperson to preside at the meeting.

The Executive Director stated on August 5, 2010, the Governor appointed three new Directors to the Authority's Board of Directors and renewed the term of one member. Three of the four newly appointed directors have a term of one year, ending August 30, 2011. The Chairperson has a three year term ending August 30, 2013.

Noncompliance with the Illinois Municipal Code is a violation of State mandate. (Finding Code No. 10-12, 08-4, 06-7)

RECOMMENDATION

We recommend the Authority continue to request Board appointments from the Office of the Governor for those terms that will expire on August 30, 2011 and for the one vacant Director position.

AUTHORITY RESPONSE

We agree. The Authority will continue to request Board appointments from the Office of the Governor for those terms that will expire on August 30, 2011 and for the one vacant Director position.

A. Failure to File Economic Interest Statements

FINDING
During the prior period, the Legal Counsel for the Authority did not submit an Economic Interest Statement for fiscal years 2007 and 2008.

During the current period audit, we noted that the Legal Counsel properly submitted the required forms in 2009 and 2010. We also noted that all other persons required to file such forms were in compliance with this requirement

STATUS
Implemented (Finding Code No. 08-4)

B. Improper Calculation of Accrued Vacation at Separation

FINDING
During the prior period, the Authority's previous Executive Director's accrued payout amount upon separation from the Authority was incorrectly calculated.

During the current period audit, the Board reviewed and updated its policies to specify the method of calculating, carrying over, and paying out accrued unused vacation time.

STATUS
Implemented (Finding Code No. 08-5)

The audit of the accompanying basic financial statements of the State of Illinois- East St. Louis Financial Advisory Authority (the "Authority") was performed by Schorb & Schmersahl, LLC.

Based on their audit, the auditors expressed an unqualified opinion on the Authority's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Authority's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings listed in the table of contents as findings 10-1, Inappropriate Expenditure of Funds. The significant deficiencies are described in the accompanying Schedule of Findings as findings 10-3, Inadequate Reconciliation of Investment Statements to General Ledger; and 10-4, Inadequate Controls over Financial Reporting.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 29, 2010. Attending were:

East St. Louis Financial Advisory Authority

Marvin Lampkin	Board of Directors Chairman
Patrice R. Rencher	Executive Director
Robert Bassett	Legal Counsel
Jennifer Wilson	Administrative Assistant

Office of the Auditor General

Kathy Lovejoy	Audit Manager

Schorb & Schmersahl, LLC

James R. Schmersahl	Audit Partner
Maureen E. Downs	Audit Supervisor

The responses to the recommendations were provided by Patrice R. Rencher in a letter dated January 21, 2011.

§ SCHORB & SCHMERSAHL, LLC
Certified Public Accountants

EUGENE J. SCHORB, CPA
JAMES R. SCHMERSAHL, CPA

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
East St. Louis Financial Advisory Authority
East St. Louis, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois – East St. Louis Financial Advisory Authority (the "Authority") as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note B, the financial statements of the Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

518 North Main Street • Columbia, Illinois 62236 • 618-281-5195 • Fax 618-281-6101 • cpa@htc.net

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois – East St. Louis Financial Advisory Authority, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audit.

The Authority has not presented a management's discussion and analysis and budgetary comparison information for the General Revenue Fund and Special Revenue Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, East St. Louis Financial Advisory Authority's basic financial statements. The Supplementary Information for State Compliance Purposes and Analysis of Operations are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Supplementary Information For State Compliance Purposes and the Analysis of Operations, except the Service Efforts and Accomplishments have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Service Efforts and Accomplishments have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and Board of Directors and Authority management and is not intended to be and should not be used by anyone other than these specified parties.

Scheffel + Schlarmann, LLC

Columbia, Illinois
January 21, 2011

State of Illinois--East St. Louis Financial Advisory Authority
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2010

ASSETS

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
CURRENT ASSETS					
Unexpended appropriations	$1,613	$ -	$ 1,613	$ -	$ 1,613
Cash and cash equivalents	-	287,065	287,065	-	287,065
Accrued interest receivable	-	10,023	10,023	-	10,023
Investments	-	6,436,883	6,436,883	-	6,436,883
Capital assets, net	-	-	-	-	-
Total Assets	$1,613	$6,733,971	$6,735,584	$ -	$6,735,584

LIABILITIES AND NET ASSETS

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
CURRENT LIABILITIES					
Accounts payable	$1,613	$ 3,005	$ 4,618	$ -	$ 4,618
NONCURRENT LIABILITIES					
Compensated absences	-	-	-	3,122	3,122
Total Liabilities	1,613	3,005	4,618	3,122	7,740
FUND BALANCE/NET ASSETS					
Unreserved	-	6,730,966	6,730,966	(6,730,966)	-
Invested in capital assets, net of related debt	-	-	-	-	-
Unrestricted	-	-	-	6,727,844	6,727,844
Total Fund Balance/Net Assets	-	6,730,966	6,730,966	(3,122)	6,727,844
Total Liabilities and Fund Balance	$1,613	$6,733,971	$6,735,584	$ -	$6,735,584

The accompanying notes are an integral part of these financial statements.

State of Illinois--East St. Louis Financial Advisory Authority
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
June 30, 2010

Total Fund Balances - Governmental Funds	$ 6,730,966
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:	
Compensated absences	(3,122)
Net Assets of Governmental Activities	$ 6,727,844

The accompanying notes are an integral part of these financial statements.

State of Illinois--East St. Louis Financial Advisory Authority

STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Total operating expenses of the East St. Louis Financial Advisory Authority	$ 119,935	$ 139,814	$ 259,749	($ 10,331)	$ 249,418
PROGRAM REVENUES					
Total interest and investment income	-	194,210	194,210	-	194,210
OTHER SOURCES					
Total appropriations from State resources	119,935	-	119,935	-	119,935
Increase in Fund Balance/Net Assets	-	54,396	54,396	(10,331)	64,727
FUND BALANCE/NET ASSETS, June 30, 2009	-	6,676,570	6,676,570	13,453	6,663,117
FUND BALANCE/NET ASSETS, June 30, 2010	$ -	$ 6,730,966	$ 6,730,966	$ 3,122	$ 6,727,844

The accompanying notes are an integral part of these financial statements.

State of Illinois--East St. Louis Financial Advisory Authority
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN NET ASSETS OF
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended June, 30 2010

Net Change in Fund Balances	$ 54,396
Amounts reported for governmental activities in the Statement of Activities are different because:	
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and thus, are not reported as expenditures in governmental funds. These activities consist of:	
Compensated absences	10,331
Changes in Net Assets of Governmental Activities	$ 64,727

The accompanying notes are an integral part of these financial statements.

A. ORGANIZATION

The East St. Louis Financial Advisory Authority (Authority), a component unit of the State of Illinois, was established by provisions of the Financially Distressed City Law (65 ILCS 5/8-12-5). The Authority was created to provide a secure financial basis for and to furnish assistance to the City of East St. Louis (City). The governing body of the Authority consists of five Directors. The Directors are appointed by the Governor, with the advice and consent of the Senate.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

The Authority's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. All significant internal transactions have been eliminated.

Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Authority is a discretely determined component unit of the State of Illinois' reporting entity. The State of Illinois' Comprehensive Annual Financial Report (CAFR) further describes the State's reporting entity and may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Presentation

The financial activities of the Authority are reported as a discretely presented component unit in the State of Illinois' CAFR. For its reporting purposes, the Authority has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Authority's government-wide and fund financial statements is as follows:

Government-wide Statements: The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. Eliminations have been made to minimize the double counting of internal activities of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on a major governmental fund, each displayed in a separate column.

The Authority administers the following major governmental funds (or portions thereof in the case of shared funds—see note on page 48) of the State:

> **General**—This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Authority administers and accounts for general government services in the General Fund. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.
>
> **Corporate Savings**—This fund is used to account for repayments of State loan funds received from the City. Expenditures from this fund are made to support activities leading to a restructuring of the City's debt and to enhance earnings on public funds through investments.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Accounting *(Continued)*

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are generally recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest. All other revenue sources including miscellaneous revenues are considered to be measurable and available when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

Shared Fund Presentation

The financial statement presentation for the General Revenue Fund presents only the portion of the shared fund that can be directly attributed to the operations of the Authority. Financial statements for the total fund operations of the General Fund are presented in the State of Illinois' CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Authority's portion of shared funds:

Unexpended Appropriations
This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources
This "other financing source" account represents the final legally adopted appropriation according to SAMS records. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Shared Fund Presentation (Continued)

Lapsed Appropriations
Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14-month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Cash and Cash Equivalents

Cash and cash equivalents at the Authority consist of cash held in banks for locally held funds, and cash held in interest-bearing deposit accounts by various banks through the Authority's broker.

Investments

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the unrealized gains (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for employees of the Authority. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs.

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve (12) sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service times for purposes of calculating employee pension benefits.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Capital Assets *(Continued)*

Capitalization thresholds and the estimated useful lives are as follows:

Capital asset category	Capitalization threshold	Estimated useful life
Equipment	$5,000	3 – 6

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

Net Assets

In the government-wide financial statements, equity is displayed in three components as follows:

> ***Invested in Capital Assets, Net of Related Debt***—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> ***Restricted***—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.
>
> ***Unrestricted***—This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Classification of Revenues and Expenses

The Authority has classified its revenues and expenses as either operating or non-operating revenues and expenses according to the following criteria:

> ***Operating Revenues and Expenses***—These include expense activities that have the characteristics of exchange transactions, such as salaries and commodities, along with revenue from the State's funding of these activities. These activities are principally recorded in the General Revenue Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Classification of Revenues and Expenses *(Continued)*

Non-Operating Revenues and Expenses—These include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income. These activities are recorded in the Corporate Savings Fund.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Authority independently manages cash and cash equivalents maintained outside of the State Treasury.

Cash on deposit for locally held funds had a carrying amount of $235,153 and a bank balance of $272,371 at June 30, 2010. The balance was fully insured through the Federal Depository Insurance Corporation (FDIC) insurance of $250,000 at each financial institution. In addition, the Authority held the following investments: Cash of $19,575, Bank Deposit Sweep of $32,336, US Treasury Notes of $3,355,334, and Mutual Funds of $3,081,549, of which $701,124 was uncollateralized.

Investments

It is the policy of the Authority to invest its "locally held funds" in a manner which will: (a) ensure the safety of principal; (b) provide the highest investment return using authorized investment instruments; and (c) manage liquidity to pay Authority obligations, as required; all in conformance with the Illinois Public Funds Investment Act (30 ILCS 235).

The Act authorizes public agencies, including the State of Illinois Primary Government and State its Component Units, to engage in a wide variety of investment activities. These include bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest. However, the statute requires that securities purchased shall mature or be redeemable prior to the date when they will be required for expenditure.

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS *(Continued)*

Investments *(Continued)*

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a policy that specifically defines and addresses interest rate risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The Authority does not have a policy that specifically defines and addresses credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer.

At June 30, 2010, the Agency had the following investments and maturities:

Investment Type	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
U.S. Treasury Notes	$3,355,334	$1,004,340	$2,350,994	$ -	$ -
Mutual Funds	3,081,549	3,081,549	-	-	-
Total	$6,436,883	$4,085,889	$2,350,994	$ -	$ -

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 01, 2009	Additions	Deletions	Net Transfers	Balance June 30, 2010
Capital Assets Being Depreciated:					
Equipment	$ -	$ -	$ -	$ -	$ -
Less: Accumulated Depreciation:					
Equipment	-	-	-	-	-
Total Capital Assets Being Depreciated, Net	$ -	$ -	$ -	$ -	$ -

E. STATE EMPLOYEES' RETIREMENT SYSTEM

Substantially all of the Authority's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operation of the SERS for fiscal year 2010 are included in the State of Illinois' Comprehensive Annual Financial Report for the year ended June 30, 2010. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Authority pays employer retirement contributions based on an actuarially determined percentage of their payrolls. For fiscal year 2010, the employer contribution rate was 28.377%. Effective January 2004, those employees not covered by a collective bargaining unit agreement were required to contribute to an employee-paid percentage of 4% to SERS.

F. POST-EMPLOYMENT BENEFITS

In addition to providing the above pension benefits, the State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2010. Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks.

G. **RISK MANAGEMENT** *(Continued)*

The Authority's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Authority; and accordingly, have not been reported in the Authority's financial statements for the year ended June 30, 2010.

H. **CONTINGENT LIABILITIES**

A contingent liability is a liability that is not sufficiently predictable to permit its recording in the financial statements, but for which there is a reasonable possibility of an outcome which might affect the Authority's financial position or its results of operation.

At times, the Authority defends itself against various lawsuits. However, as of June 30, 2010, Authority officials are of the opinion, based on legal counsel advice, that any ultimate liability resulting from such litigation would not have a material effect on the Authority's financial position or its future operations.

I. **INTEREST REVENUE**

Interest revenue is composed of the following amounts:

Interest earned on Corporate Savings Fund (1302)	$ 249
Investment earnings	193,961
Total Interest and Investment Income	$194,210

J. **LEASE**

The Authority leases office space from the State of Illinois in the Kenneth Hall State Regional Office Building in East St. Louis.

Rent expense for office space was $0 for the year ended June 30, 2010. No in-kind revenue or expense has been recorded for this item.

K. **INTEREST ON LAPSED BALANCES**

Expenditures and related lapsed balances for the year ended June 30, 2010 do not reflect any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

L. **SUBSEQUENT EVENTS**

A new Board of Directors was subsequently appointed on August 5, 2010.

Supplementary Information for State Compliance purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures, and Lapsed Balances
  Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  Comparative Schedule of Locally-Held Funds (Accrual Basis)
  Schedule of Changes in State Property
  Explanation of Significant Variations in Expenditures
  Analysis of Significant Lapse Period Spending
  Analysis of Significant Account Balances

- Analysis of Operations:

  Authority Functions and Planning Program
  Average Number of Employees
  Loan Agreement
  Locally Held Funds
  Emergency Purchases
  Illinois First Projects
  Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
Appropriations for Fiscal Year 2010
Fourteen Months Ended August 31, 2010

Public Act 96-0042	Appropriations (Net After Transfers)	Expenditures Through 6/30/2010	Lapse Period Expenditures 7/1-8/31/2010	Total Expenditures	Balances Lapsed
Appropriated funds:					
General Revenue Fund - 001					
Operating expenses of the East St. Louis Financial Advisory Authority	$120,000	$118,322	$1,613	$119,935	$ 65
Grand Total – All Funds	$120,000	$118,322	$1,613	$119,935	$ 65

Note: Appropriation, expenditures and lapsed balances were obtained from Authority records and have been reconciled to the records of the State Comptroller.

Note: Fiscal year 2010 expenditures and related lapsed balances do not reflect any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

Public Act 95-0733	Appropriations (Net After Transfers)	Expenditures Through 6/30/2009	Lapse Period Expenditures 7/1-8/31/2009	Total Expenditures	Balances Lapsed
Appropriated funds:					
General Revenue Fund - 001					
Operating expenses of the East St. Louis Financial Advisory Authority	$240,000	$216,079	$5,605	$221,684	$18,316
Grand Total – All Funds	$240,000	$216,079	$5,605	$221,684	$18,316

Note: Appropriation, expenditures and lapsed balances were obtained from Authority records and have been reconciled to the records of the State Comptroller.

Note: Fiscal year 2010 expenditures and related lapsed balances do not reflect any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

State Of Illinois—East St. Louis Financial Advisory Authority
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
For the Years Ended June 30, 2010, 2009, and 2008

General Revenue Fund – 001	2010 PA 96-0042	2009 PA 95-0733	2008 PA 95-0348
Appropriations (net after transfers)	$120,000	$240,000	$240,000
Expenditures			
Operating expenses of the East St. Louis Financial Advisory Authority	119,935	221,684	216,358
Total Expenditures	119,935	221,684	216,358
Total Lapsed Balances	$ 65	$ 18,316	$ 23,642

Note: Fiscal year 2010 expenditures and related lapsed balances do not reflect any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

State Of Illinois—East St. Louis Financial Advisory Authority
COMPARATIVE SCHEDULE OF LOCALLY-HELD FUNDS
(ACCRUAL BASIS)
For the Years Ended June 30, 2010, 2009, and 2008

Corporate Savings Fund - 1302	2010	2009	2008
Balance, July 1	$6,676,570	$6,518,305	$6,304,346
Interest and investment income	194,210	168,118	225,837
Total Revenues	194,210	168,118	225,837
Personal services	118,907	-	-
Contractual services	18,044	9,853	11,878
Travel	1,322	-	-
Commodities	535	-	-
Telecommunications	1,006	-	-
Total Expenditures	139,814	9,853	11,878
Balance, June 30	$6,730,966	$6,676,570	$6,518,305

SCHEDULE OF CHANGES IN STATE PROPERTY

For the Years Ended June 30, 2010 and 2009

Beginning Balance, July 1, 2008	$59,580
Additions	4,538
Deletions	11,293
Net transfers	-
Ending Balance, June 30, 2009	$52,825
Beginning Balance, July 1, 2009	$52,825
Additions	229
Deletions	179
Net transfers	-
Ending Balance, June 30, 2010	$52,875

Note: Information was obtained from Authority records and reconciled to property reports submitted to the Office of the Comptroller.

Note: This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

	Fiscal Year		
General Revenue Fund - 001	2010	2009	2008
Personal services	$110,900	$182,562	$158,873
Contractual services	4,148	26,329	44,510
Travel	1,890	3,121	4,962
Commodities	1,534	4,723	5,694
Printing	-	75	193
Equipment	-	564	-
Electronic data processing	229	2,476	-
Telecommunications	1,234	1,834	2,126
Total General Revenue Fund Expenditures	119,935	221,684	216,358
Corporate Savings Fund - 1302			
Total Corporate Savings Fund Expenditures	139,814	9,853	11,878
Total Expenditures – All Funds	$259,749	$231,537	$228,236

Scope: GRF (001): Variances > $5,000 and 20%
CSF (1302): Variances > $40,000 and 20%

The decrease in personal and contractual services from 2009 to 2010 is due to the fact the Authority's appropriation was reduced by 50% for fiscal year 2010. The Authority then used its Corporate Savings Fund to pay for expenditures incurred after the appropriation had been used fully.

The decrease in contractual services from 2008 to 2009 is due to the fact the Authority incurred outside temporary clerical assistance while it was understaffed and additional legal fees due to lawsuits relating to employees. The lawsuits had completed by June 30, 2009 and the Authority was fully staffed by the end of 2008 and 2009 shows a significant decrease.

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

For the Years Ended June 30, 2010 and 2009

	Fiscal Year 2010			
Description	Expenditures Through 6/30/2010	Lapse Period Expenditures	Total Expenditures	Percentage of Total
Personal services	$110,900	$ -	$110,900	0%
Contractual services	3,998	150	4,148	4%
Travel	1,890	-	1,890	0%
Commodities	300	1,234	1,534	80% A
Printing	-	-	-	0%
Equipment	-	-	-	0%
Electronic data processing	-	229	229	100% A
Telecommunications	1,234	-	1,234	0%
Total	$118,322	$1,613	$119,935	1%

	Fiscal Year 2009			
Description	Expenditures Through 6/30/2009	Lapse Period Expenditures	Total Expenditures	Percentage of Total
Personal services	$181,778	$ 784	$182,562	0%
Contractual services	25,655	674	26,329	3%
Travel	2,764	357	3,121	11%
Commodities	3,333	1,390	4,723	30% C
Printing	-	75	75	100% B
Equipment	-	564	564	100% B
Electronic data processing	1,000	1,476	2,476	60% B
Telecommunications	1,549	285	1,834	15%
Total	$216,079	$5,605	$221,684	3%

SCOPE: 20%

(A) The Authority had expended almost all of its appropriation well before year end. After year end, the Authority attempted to utilize the remaining appropriation by purchasing office supplies and software licenses.

(B) Expenditures that are not routine to the Authority's activities. Lapse period payments are due to timing of payments by Comptroller.

(C) The Authority purchases commodities at year end for the upcoming year.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the Years Ended June 30, 2010 and 2009

	June 30, 2010	June 30, 2009	Increase/ (Decrease)
Corporate Savings Fund:			
Cash and cash equivalents	$ 287,065	$ 180,915	$106,150 (1)
Investments	6,436,883	6,484,590	(47,707)

Scope: Variance > 20%

(1) The increase in cash and cash equivalents is due to the fact that in March of 2010, the Authority transferred $250,000 to a bank account to be used for operating expenditures.

	June 30,		Increase/
	2009	2008	(Decrease)
Corporate Savings Fund:			
Cash and cash equivalents	$ 180,195	$6,515,886	($6,335,691)(2)
Investments	6,484,590	-	6,484,590 (2)

Scope: Variance > 20%

(2) The decrease in cash and cash equivalents and increase in investments is due to the Authority reinvesting cash into investments during the year ended June 30, 2009.

INTRODUCTION

During the audit period, the State of Illinois – East St. Louis Financial Advisory Authority (Authority) received two lump sum appropriations (one for each fiscal year) from the General Revenue Fund to provide for the operating expenses of the Authority.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM

The State of Illinois, East St. Louis Financial Advisory Authority (Authority) was established on August 30, 1990. The purpose of the Authority is to provide a secure financial basis for and to furnish assistance to the City of East St. Louis (City). The Authority issued a loan of $3,795,000 to the City in Fiscal Year 1991, allowing the City to provide basic municipal services and meet its obligations to creditors.

The Authority has statutory powers to:

- Provide for its organizations and internal management,
- Make rules and regulations governing the use of property and facilities,
- Make and execute contracts, leases, and other instruments or agreements necessary or convenient for the exercise of its powers,
- Approve all loans, grants, or other financial aid from any State agency to the City,
- Appoint officers, agents, and employees of the Authority,
- Engage the services of consultants for rendering professional and technical assistance and advice on matters within the Authority's power,
- Pay the expenses of operations, and
- Determine the terms and conditions of any loans made to the City.

The Authority is made up of a governing board of five Directors appointed by the Governor, with the advice and consult of the Senate, with one serving as the Authority Chairperson. The Directors serve without compensation. The Directors are appointed to hold office for a term of three years and until his or her successor has been appointed. The members of the Board of Directors at June 30, 2010 were

- Dr. Katie H. Wright, Vice Chairperson
- Anthony "Tony" Grant
- Jacquline R. Settles
- Chairperson Position is Vacant
- Director Position is Vacant

The City is required to develop and adopt budgets and financial plans annually and during interim periods as directed by the Authority. The Authority has the power to approve or reject any budgets, financial plans, or contracts that are inconsistent with the budget or financial plan of the City.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM *(Continued)*

The Authority's current Executive Director is Patrice Rencher, who assumed these duties on October 4, 2007. The Executive Director's duties include having signature authority for all expenditures made from the proceeds of any State loans, advising the City on preparation of a financial plan and budget, and monitoring expenditures of the City. The Authority had a contract with Mr. Robert Bassett to serve as the Authority's Legal Counsel that was effective until January 2010.

Planning Program

The Authority has developed a planning document that includes long-term and short-term goals. The long-term goals developed by the Authority include:

- To change the method of approving City expenditures,
- To analyze the long-term impact on financial recovery of having the entire city included in a TIF district,
- To develop a role in the City's effectiveness and productivity improvements, and
- To develop a role in the development of a comprehensive recovery plan for the City.

The Authority also established several short-term goals to assist in fulfilling its long-term objectives. Short-term goals are reviewed annually by the Authority. The Authority's short-term goals are to:

- Make a determination about the City's FY2011 audit;
- Monitor and report on the condition of the City's 2010 Budget;
- Monitor the status of TIF funding and obligations;
- Monitor City compliance with the Three-Year Financial Plan.

These goals are monitored through meetings held by the Authority. By reviewing the goals annually, the Authority is able to focus on areas that will enable it to more effectively carry out its statutorily mandated functions.

Auditor's Assessment of Planning Program

During the audit period, the Authority maintained an adequate planning program.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM *(Continued)*

Authority Location and Management

- Chairperson: VACANT
- Executive Director: Patrice Rencher
- Address: East St. Louis Financial Advisory Authority
  Kenneth Hall State Regional Office Building
  10 Collinsville Avenue
  Suite 202
  East St. Louis, Illinois 62201

AVERAGE NUMBER OF EMPLOYEES

The following information was prepared from the Authority's records and presents the average number of Authority and contractual employees for the fiscal year ended June 30,

	2010	2009	2008
Payroll Employees	3	3	2
Contractual Employees	1	1	1
Total Employees	4	4	3

The Authority began utilizing the State of Illinois Central Payroll System in FY1996. All Authority employees, excluding Legal Counsel, are payroll employees.

During FY2009 and FY2010, the Authority's governing board consisted of four Directors appointed by the Governor, who served without compensation. Since May 2007 to the present, the Authority also contracted for legal services necessary to assist in the affairs of the Authority.

LOAN AGREEMENT

The Authority loaned a total of $3,795,000 to the City of East St. Louis (City) during FY1991. The loan agreement required the City to make quarterly loan repayments beginning in FY1994. The Authority's governing legislation was amended in FY1995 to allow the Authority to use loan repayment funds to assist with the restructuring of the City's debt. The Authority pledged the first two loan payments to assist the City in obtaining financing to purchase fire-fighting equipment. During FY1996, the City fulfilled the terms of the loan and the provisional payments pledged by the Authority were released. The provisional payments have been applied against the loan principal. This loan was paid in full as of July 2003.

LOCALLY HELD FUNDS

The Financially Distressed City Law (65 ILCS 5/8-12-6(c)) was amended in FY1995 to enable the Authority to deposit loan repayment funds received from the City into a revolving fund under the control of the Authority. These monies can be used by the Authority to support activities leading to the restructuring of the City's debt, and may be pledged as security for any new debt incurred by the City. The Authority held loan repayment monies in one locally held fund. The Corporate Savings Fund (1302) was administered by the Authority throughout FY2009 and FY2010.

Corporate Savings Fund (1302)

The Corporate Savings Fund was established to account for repayments of State loan funds received from the City and to support activities leading to a restructuring of the City's debt.

The roll forward schedules for the Authority's Locally Held Fund for the two fiscal years ended June 30, 2010 are presented on page 58 of this report.

EMERGENCY PURCHASES

The Authority did not engage in any emergency purchases during the audit period.

ILLINOIS FIRST PROJECTS

The Authority did not have any Illinois First Projects funded during the audit period.

SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited)

The East St. Louis Financial Advisory Authority has been a central component in many positive developments for the City of East St. Louis (City); many times, it has been the prime motivator in the accomplishments. It has assisted in:

- Implementing a $3,795,000 state loan to the City in 1991 and 1992 which was paid back in 2003, two years early.
- Restoring withheld IDOT Motor Fuel Tax (MFT) payments in 1991 by entering into an agreement for the City to repay $2,885,142 in misused MFT funds. The monies were repaid in 2003, three years early.
- Establishing a riverboat gambling casino in 1993.
- Expanding the riverboat gambling casino and hotel through TIF revenue bonds in 1999.
- Restructuring the City's debt and liabilities in 1994 through the issuance of $21,435,000 in Debt Restructuring Revenue Bonds and refunding the refundable portion in 2003.

SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited) *(Continued)*

- Designing a new Financial Management System (FMS) in 1999 and participating in monthly reviews of its performance.

- Hiring a Financial Management System Contractor in 2000 to manage, operate and maintain the FMS and participating in monthly meetings regarding performance and outcomes.

- Hiring a TIF consultant in 2003 to prepare options and recommendations for revisiting the City-wide TIF program to help reduce inordinately high property taxes.

- Initiating a self-insurance program and establishing appropriate self-insurance cash reserves.

- Initiating an internal control audit of the City's FMS in 2004, and

- Resolving accounting and budget problems and issues including advising on how to balance the budgets. The Authority approves the City's annual budget, annual Three-Year Financial Plan and contracts, purchase orders and personnel actions. The Authority serves as a source of managerial and financial expertise and advice to City management.

- Approval of the City of East St. Louis' 2010 Debt Restructuring Plan and identified solutions to address the City's dire financial problem and reduce the City's deficit.

- The establishment and approval of a promissory note and lending agreement between the City of East St. Louis and East St. Louis Financial Advisory Authority in the amount of $2,500,000.

- Approval of the East St. Louis Housing Authority (ESLHA) – Senior & Mixed Use Housing Project in the amount of $17,000,000.

- Approval of the City of East St. Louis Revenue Financing Bonds, Series 2010 to issue its revenue bonds to refund a portion of the outstanding Series 2003 Bonds and a portion of the outstanding Series 2005 Bonds.