
REPORT DIGEST

SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY

FINANCIAL AUDIT

For the Years Ended:
June 30, 2009, 2008,
2007 and 2006

Summary of Findings:

Total this audit: 5
Total last audit: 0
Repeated from last audit: 0

Release Date:
May 18, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Authority paid a commission of \$20,000 to the Executive Director for grants received in noncompliance with the grant agreements.
- The Authority did not prepare annual budgets as required by its bylaws.
- The Authority did not perform regular bank reconciliations during the fiscal years ended June 30, 2006, 2007 and 2008. Bank reconciliations that were performed were inaccurate.
- The auditor's qualified the June 30, 2009 financial statements due to substantial doubt about the Authority's ability to continue as a going concern.

{Expenditures and Activity Measures are summarized on the reverse page.}

SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
FOR THE YEARS ENDED JUNE 30, 2009, 2008, 2007 AND 2006
(CASH BASIS FINANCIAL STATEMENTS)

FINANCIAL ACTIVITY	FY 2009	FY 2008	FY 2007	FY 2006
<u>Statement of Revenues, Expenses and</u>				
<u>Change in Net Assets</u>				
Operating Revenues:				
Grant award	\$ -	\$ -	\$ 600,000	\$ -
Bond issuance fees	-	-	60,856	-
Bond application fees	-	-	2,000	12,000
Interest income.....	238	13,101	14,756	-
Total Operating Revenues.....	<u>238</u>	<u>13,101</u>	<u>677,612</u>	<u>12,000</u>
Operating Expenses:				
Contractual services	155,250	348,100	66,000	-
Accounting.....	27,104	845	-	-
Executive Director	12,000	16,500	15,000	-
Success fees	-	10,000	29,119	-
Travel	1,165	2,666	3,063	1,671
Marketing	220	220	2,888	200
Insurance.....	-	2,454	786	1,258
Support services.....	-	2,000	-	-
Telephone	-	-	853	-
Meeting.....	127	103	817	233
Postage	-	134	502	-
Office expense.....	-	-	-	335
Bank charges.....	40	278	20	-
Total Operating Expenses	<u>195,906</u>	<u>383,300</u>	<u>119,048</u>	<u>3,697</u>
Operating Income (Loss) and				
Change in Net Assets.....	(195,668)	(370,199)	558,564	8,303
Net Assets, Beginning of the Year	<u>196,668</u>	<u>566,867</u>	<u>8,303</u>	-
Net Assets, End of the Year	<u>\$ 1,000</u>	<u>\$ 196,668</u>	<u>\$ 566,867</u>	<u>\$ 8,303</u>
<u>Statement of Net Assets</u>				
Cash.....	<u>\$1,000</u>	<u>\$196,668</u>	<u>\$566,867</u>	<u>\$8,303</u>
Unrestricted net assets	1,000	15,909	34,111	8,303
Restricted net assets.....	-	180,759	532,756	-
Total Net Assets	<u>\$1,000</u>	<u>\$196,668</u>	<u>\$566,867</u>	<u>\$8,303</u>

EXECUTIVE DIRECTOR

During Audit Period: Andrew Hamilton
Currently: Andrew Hamilton

INTRODUCTION

The Southeastern Illinois Economic Development Authority (Authority) was created August 20, 2004 as a result of the Southeastern Illinois Economic Development Authority Act (70 ILCS 518/ et seq.). Its purpose is to promote industrial, commercial, residential service, transportation and recreational activities and facilities to enhance the employment opportunities, public health and general welfare in a 16 county region in southeastern Illinois.

Section 70(b) of the Southeastern Illinois Economic Development Authority Act (70 ILCS 5/518) states “Beginning 5 years after the effective date of this Act and every 5 years thereafter, the Auditor General shall conduct a financial audit of the Authority.” Further, Section 3-1 of the Illinois State Auditing Act requires a financial audit of the Authority as set forth in Section 70 of the Southeastern Illinois Economic Development Authority Act.

This digest covers the financial audit of the Authority for the years ended June 30, 2009, 2008, 2007 and 2006. The Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The auditors’ opinion was qualified for the year ended June 30, 2009 due to substantial doubt about the Authority’s ability to continue as a going concern.

The Authority received no appropriation from the General Assembly. The Authority was financed from fee and interest income and a \$600,000 state grant received in fiscal year 2007. The grant funds were held in the State Treasury. Other Authority funds were locally held.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

PAYMENT OF COMMISSIONS NONCOMPLIANT WITH GRANT AGREEMENTS

The Authority paid a commission of \$20,000 to the

\$20,000 commission

Executive Director for grants received in noncompliance with the grant agreements.

A component of the Executive Director's contract states he will receive a Success Fee of one-third of any fee income received by the Authority, contingent upon the successful receipt of that fee income and attributable to the Executive Director. In Fiscal Year 2007, the Authority received three grants from the Illinois Department of Commerce and Economic Opportunity (DCEO) totaling \$600,000. The administration portion of the grants totaled 10% or \$60,000. The Authority paid a Success Fee to the Executive Director of one-third of the grant administration total or \$20,000.

Grant agreements state paying a commission for obtaining the grants is not allowable

Each of the three DCEO grant agreements states the grantee shall not pay any bonus or commission for the purpose of obtaining the grant awarded under the agreement. (Finding #1, pages 29-30)

We recommended the Authority seek repayment of the \$20,000 paid to the Executive Director in violation of the terms of the grant agreement.

Authority officials disagreed with the finding

Authority officials disagreed with the Auditor General's conclusion that the Authority paid its Executive Director a "commission for the purpose of obtaining" the grants and stated the records maintained by the Authority clearly indicate that the Executive Director was paid compensation for the administration of the grants. Further, to resolve this issue, Authority officials indicated they would amend the agreement with the Executive Director to clearly delineate that compensation arising from receipt of the grants is payable only for grant administration and that no compensation is payable for the purpose of obtaining the grants.

Authority says grant was paid for administration

Auditors' Comment

In an Auditors' Comment we were encouraged that the Authority stated it would take steps to resolve the condition described in the finding. In its response the Authority characterizes the Success fee payments as compensation to the Executive Director for administering the grant and not for the purpose of obtaining the grant. The payment was paid by the terms of the Executive Director's contract as a type of "commission" called a Success fee for receipt of fee income "attributable to the Executive Director". Given the

two agreements as they were written, we stand by our conclusion that the Authority paid the Executive Director a \$20,000 commission in violation of the terms of the grant agreement.

NONCOMPLIANCE WITH BY-LAWS

The Southeastern Illinois Economic Development Authority (Authority) did not obtain annual audits or prepare annual budgets as required by its bylaws.

The Authority officially began operations in the fiscal year ended June 30, 2006. During our audit of the four fiscal years ended June 30, 2009, we noted the Authority did not have an annual audit or examination of its books and records for fiscal years 2006, 2007 or 2008 as required by its bylaws. In addition, we noted the Authority did not prepare an annual budget for fiscal years 2007, 2008 or 2009 for the January Board of Directors meeting preceding each fiscal year as required by the bylaws.

Authority did not prepare annual budgets

Authority personnel stated that the Audit Committee examined the printed general ledger register and the bank statements at the end of each year, thereby eliminating the need for an audit by an external auditor. However, there was no documentation to support the review by the Audit Committee. (Finding #2, page 31)

Annual audits not performed

We recommended the Authority conduct an annual audit or examination of the Authority's books and records and prepare an annual budget as required by its bylaws.

Authority officials agree with auditors

Authority officials agreed with our recommendation and stated that they would take formal action to appoint an Audit Committee and retain documentation of the Audit Committee's review of the books and records of the Authority. They also indicated they would prepare an annual budget.

BANK RECONCILIATIONS NOT PERFORMED OR NOT ACCURATE

There was no documentation to support that the Authority performed regular bank reconciliations during the fiscal years

ended June 30, 2006, 2007 and 2008. In addition, the bank reconciliations that were performed were inaccurate.

There are no bank reconciliations for the following fiscal year end periods:

- June 30, 2006 (Operating Account), bank balance \$8,302
- June 30, 2007 (Grant Account), bank balance \$532,756
- June 30, 2008 (Grant Account), bank balance \$180,758

Several bank reconciliations not performed

The following year end bank reconciliations were inaccurate:

- June 30, 2007 (Operating Account) – Three outstanding checks totaling \$60,355 written in fiscal year 2007 were not posted until fiscal year 2008.
- June 30, 2008 (Operating Account) – The ending cash balance of \$15,910 did not agree with the general ledger and financial statement balance of \$17,276.

Other bank reconciliations were inaccurate

Authority personnel stated that the bank reconciliations were performed at least quarterly in order to complete the Report of Receipts and Disbursements for the Comptroller's Office. The Authority, however, was not able to produce any documentation of the quarterly reconciliations. (Finding #3, page 32)

We recommended the Authority prepare monthly bank reconciliations and take greater care to insure that they are prepared accurately.

Authority officials agreed with our recommendation and indicated that going forward they would prepare accurate monthly bank reconciliations.

Authority officials agree with auditors

OTHER FINDINGS

The other findings are reportedly being given attention by the Authority. We will review progress toward implementation of all recommendations in our next audit.

AUDITORS' OPINIONS

Substantial doubt about the Authority ability to continue

Our auditors stated the Southeastern Illinois Economic Development Authority financial statements for the years ended June 30, 2009, 2008, 2007 and 2006 were fairly presented in all material respects on the cash basis of accounting. Auditor's qualified the June 30, 2009 financial statements due to substantial doubt about the Authority's ability to continue as a going concern.

WILLIAM G. HOLLAND, Auditor General

WGM:JAF:pp

SPECIAL ASSISTANT AUDITORS

Schorb & Schmersahl LLC was our special assistant auditors for these financial audits.