



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS INTERNATIONAL PORT DISTRICT

MANAGEMENT AUDIT

Release Date: July 2013

SYNOPSIS

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

Board Management

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

Financial Management

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

Port Management

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

Personnel Management

- The District's Personnel Manual and job descriptions were outdated;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

Golf Course Management

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

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FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

BACKGROUND

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

BOARD MANAGEMENT

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

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

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

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

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

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

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

FINANCIAL MANAGEMENT

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

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

The District also faced several financial challenges including:

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

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

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

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

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

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

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

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

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

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

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

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PORT MANAGEMENT

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

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

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

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

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

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

PERSONNEL MANAGEMENT

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

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

Personnel files lacked complete information.

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

GOLF COURSE MANAGEMENT

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

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

opened for use in 1995.

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

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

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

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

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

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

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

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

RECOMMENDATIONS

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

A handwritten signature in black ink, appearing to read 'William G. Holland', with a large, sweeping flourish at the end.

WILLIAM G. HOLLAND
Auditor General

WGH:MSP

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