

REPORT DIGEST

FINANCIAL, COMPLIANCE,
AND PROGRAM AUDIT
OF THE

VILLAGE OF ROBBINS'
USE OF
MUNICIPAL
ECONOMIC
DEVELOPMENT FUNDS

Released: November 2008



State of Illinois
Office of the Auditor General

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SYNOPSIS

The Public Utilities Act (220 ILCS 5/8-403.1) requires the Auditor General to conduct an annual financial, compliance, and program audit of distributions received by any municipality from the Municipal Economic Development Fund. Qualified solid waste energy facilities are required to pay into the Fund \$0.0006 per kilowatt hour of electricity the facilities sold to electric utilities.

Each audit is to be for distributions from the Fund for the immediately preceding year. This is the ninth audit conducted under this requirement. This audit covers distributions from the Fund during calendar year 2007.

The Village of Robbins was the only entity to receive distributions from the Fund. The audit concluded that:

- In 2007, Robbins received \$448,349 in quarterly disbursements from the Fund. Robbins used these monies for specific disbursements such as Village payroll, employee insurance and pension expenses, and general Village expenses.
- Robbins officials deposited a Department of Commerce and Economic Opportunity grant of \$1.6 million into the Village's MEDF account, resulting in a commingling of the State MEDF and the grant funds for approximately one month. The Public Utilities Act requires that MEDF monies be held in a "separate account." When the grant funds were removed, officials did not calculate and transfer the interest earned on those grant funds to the proper account.
- We noted instances where poor internal controls over the use of grant funds resulted in the Village using \$32,243 in MEDF funds either to pay for expenses that should have been paid with grant funds or to reimburse granting agencies for funds spent on purposes other than those for which the grants were received.

REPORT CONCLUSIONS

The Village of Robbins is the only entity to receive distributions from the Municipal Economic Development Fund. In calendar year 2007, Robbins' net cash receipts from the Municipal Economic Development Fund (MEDF) totaled \$448,349 and the Village earned \$2,457 in interest income on monies deposited into its MEDF account. Robbins' cash disbursements from MEDF receipts totaled \$451,331 in calendar year 2007. Robbins began the year with a cash balance of \$964 in its bank account for Municipal Economic Development Funds and ended the year with a balance of \$439 in the account.

In April 2007, Robbins officials deposited \$1.6 million in grant funds received from the Department of Commerce and Economic Opportunity (DCEO) into the Village's MEDF account, resulting in a commingling of the State MEDF and the grant funds for approximately one month. When the grant monies were removed from the Village's MEDF account, Village officials did not properly allocate and transfer the amount of interest earned on the grant monies out of the MEDF account, but rather left all the accrued interest in the MEDF account. The commingling of funds resulted in noncompliance with the Public Utilities Act which requires that MEDF receipts be held in a "separate account."

The Public Utilities Act establishes requirements regarding the allowable uses of Municipal Economic Development Funds (220 ILCS 5/8-403.1(j)). The Act states that MEDF distributions may be used only to:

promote and enhance industrial, commercial, residential, service, transportation, and recreational activities and facilities within its boundaries, thereby enhancing the employment opportunities, public health and general welfare, and economic development within the community, including administrative expenditures exclusively to further these activities.

The Act also lists specific purposes for which the MEDF distributions cannot be used. Based on our review of documentation provided by the Village of Robbins, we concluded that most of Robbins' calendar year 2007 expenditures of MEDF receipts appeared to be consistent with Public Utilities Act requirements. Specific disbursements were made for employee payroll; employee insurance and retirement expenses; waste hauling; and other general Village expenses.

However, we noted two instances where poor internal controls over the use of grant funds resulted in the Village using MEDF monies for questionable purposes. In the first instance, the Village received a \$37,000 grant from the Department of Commerce and Economic Opportunity (DCEO) to pay for Village planning. According to Robbins officials, the DCEO grant funds were deposited into the Village's general fund and \$24,500 in grant funds were spent for purposes other than those allowable under the grant. The MEDF monies were then used to reimburse the grant.

In the second instance, the Village received a \$34,400 Justice Assistance Grant from Cook County. As with the DCEO grant, grant funds were used for purposes other than those specified in the grant. Robbins used \$7,743.05 in MEDF monies to repay Cook County for grant funds used for other purposes.

We were unable to determine the nature of the expenditures of the grant funds, which were subsequently reimbursed with MEDF funds, to determine whether such expenditures complied with the Public Utilities Act. We recommended that the Village maintain the appropriate documentation.

THE MUNICIPAL ECONOMIC DEVELOPMENT FUND

The Public Utilities Act was amended in January 1999 to create the Municipal Economic Development Fund. The Municipal Economic Development Fund is a trust fund created to receive and maintain payments from qualified solid waste energy facilities that sell electricity to electric utilities. Each qualified facility must make payments of \$0.0006 per kilowatt hour of electricity it produces and sells to the electric utilities. The facilities make payments to the Department of Revenue, which deposits the payments into the Fund. The Department may assess penalties and interest if the facilities do not submit the payments.

Amendments added by Public Act 94-836 require that the Treasurer compare the monthly amount received to the amount received for the corresponding month in 2002. If the amount received in 2002 is greater, the difference is to be transferred from the General Revenue Fund to the MEDF. A total of \$200,073 was transferred in 2007.

The State Treasurer is required to make quarterly distributions from the Fund to each city, village, or incorporated town that has within its boundaries an incinerator that:

- (1) uses, or on the effective date of Public Act 90-813 [January 29, 1999], used municipal waste as its primary fuel to generate electricity;
- (2) was determined by the Illinois Commerce Commission (ICC) to qualify as a qualified solid waste energy facility prior to the effective date of Public Act 89-448 [March 14, 1996]; and
- (3) commenced operation prior to January 1, 1998.

According to information from the ICC and the Illinois Environmental Protection Agency, Robbins had the only operating incinerator in the State that met these criteria and was entitled to receive disbursements from the Municipal Economic Development Fund. (pages 2-3)

EXPENDITURE OF DISTRIBUTIONS FROM THE MUNICIPAL ECONOMIC DEVELOPMENT FUND

The State Treasurer made quarterly Municipal Economic Development Fund payments to Robbins in calendar year 2007 totaling \$448,349. Robbins earned \$2,457. in interest income on monies deposited into its MEDF account. Digest Exhibit 1 shows that Robbins disbursed \$451,331 in Municipal Economic Development Fund receipts during calendar year 2007.

The large increase in the amount of interest recorded in the MEDF account in 2007 was the result of Robbins' commingling MEDF funds with grant funds Robbins received from the Department of Commerce and Economic Opportunity (DCEO). In April 2007, Robbins officials deposited \$1.6 million in grant funds it received from DCEO into its MEDF account, resulting in a commingling of the funds for approximately one month. When the grant monies were removed from the Village's MEDF account, Village officials did not properly allocate and transfer the amount of interest earned on the grant monies out of the MEDF account, but rather left all the accrued interest in the MEDF account. The commingling of funds resulted in noncompliance with Section 8-403.1(j) of the Public Utilities Act which requires that a recipient of State MEDF monies must hold those monies in a "separate account."

We recommended that Village officials keep all monies received from the State Municipal Economic Development Fund in a separate account and that they should calculate the amount of interest earned by the grant funds and transfer that amount to the proper fund. Village officials responded that the grant was deposited into the MEDF account in error

Robbins was the only entity to receive distributions from the Municipal Economic Development Fund.

Robbins received \$448,349 from the Fund and earned \$2,457 in interest income in calendar year 2007.

Robbins disbursed \$451,331 in Fund receipts during calendar year 2007.

and that the interest earned will be calculated and transferred to the correct account.

We recommended that Robbins officials calculate the interest earned on the grant funds and transfer it to the proper account.

Specific disbursements of MEDF funds were made for employee payroll; employee insurance and pension expenses; waste hauling; reimbursement of grant funds; and general Village expenses. Digest Exhibit 2 summarizes the amount and purpose for Robbins' cash disbursements from the Municipal Economic Development Fund receipts during calendar year 2007.

Digest Exhibit 1 ROBBINS' RECEIPT AND DISBURSEMENT OF MUNICIPAL ECONOMIC DEVELOPMENT FUNDS (Calendar Year 2007)	
Fund Distribution Received 01/07:	\$97,375
Fund Distribution Received 04/07:	\$142,272
Fund Distribution Received 07/07:	\$162,753
Fund Distribution Received 10/07:	\$45,949
Interest Income ¹ :	<u>\$2,457</u>
Total CY07 Cash Receipts ² :	\$450,807
 Total CY07 Cash Disbursements:	 <u>\$451,331</u>
 Excess of Cash Receipts Over Cash Disbursements:	 \$(524)
 Cash Balance End of CY06:	 \$964
 Cash Balance as of 12/31/07 ² :	 <u>\$439</u>
Notes: ¹ Includes interest on a \$1.6 million grant deposited into the Village's MEDF account in error.	
² Figures rounded to nearest dollar.	
Totals may not add due to rounding.	
Source: Village of Robbins.	

Based on our review of documentation provided by the Village of Robbins, we concluded that most of Robbins' calendar year 2007 expenditures of Fund receipts appeared to comply with Public Utilities Act guidelines. However, we noted two instances where poor internal controls over the use of grant funds resulted in the Village using MEDF funds for questionable purposes.

We noted two instances where poor internal controls resulted in Robbins using MEDF monies for questionable purposes.

In the first instance, the Village received a \$37,000 grant from the Department of Commerce and Economic Opportunity (DCEO) to pay for Village planning. According to Robbins officials, the DCEO grant funds were deposited into the Village's general fund and \$24,500 of the \$37,000 in grant funds were spent for purposes other than those allowable under the grant. The MEDF funds were then used to reimburse the grant:

Digest Exhibit 2 VILLAGE OF ROBBINS' DISBURSEMENT OF MUNICIPAL ECONOMIC DEVELOPMENT FUNDS (Calendar Year 2007)	
Amount	Purpose
\$315,685	Employee payroll expenses
\$22,171	Employee insurance and retirement expenses
\$9,000	Waste removal/hauling
\$72,231	General Village expenses
\$32,243	Reimbursement of grant funds
<u>\$451,331</u>	Total Disbursements
Note: Figures rounded to nearest dollar. Totals may not add due to rounding. Source: Village of Robbins.	

- \$12,500 in MEDF monies were used to pay the firm doing the planning work for the Village pursuant to the grant, instead of using the DCEO grant funds to pay the firm. While the \$12,500 payment to the planning firm would be an allowable expense under the Public Utilities Act guidelines, it is questionable because the grant funds, not MEDF monies, should have been used to pay the planning firm. Furthermore, the grant closeout report filed with DCEO showed that \$12,500 in grant funds were used to pay the planning firm, when in fact, MEDF funds were used.
- \$12,000 in MEDF monies were used to repay to DCEO for “unexpended” grant funds. Robbins used \$12,000 of the DCEO planning grant for purposes not allowable under the grant, and consequently had to return \$12,000 to DCEO. Since the DCEO funds had already been expended for other purposes, MEDF funds were used to reimburse DCEO. We were unable to determine the nature of the expenditures of the \$12,000 in grant funds, which were subsequently reimbursed with MEDF funds, to determine whether such expenditures complied with the Public Utilities Act.

In the second instance, the Village received a \$34,400 Justice Assistance Grant from Cook County. As with the DCEO grant, grant monies were used for purposes other than those specified in the grant. Robbins used \$7,743.05 in MEDF monies to repay Cook County for grant funds used for other purposes. Again, we were unable to determine the nature of the expenditures of the \$7,743.05 in grant funds, which were

subsequently reimbursed with MEDF funds, to determine whether such expenditures complied with the Public Utilities Act.

We recommended that Robbins officials ensure that grant funds are used only for the specified purposes and retain documentation of all MEDF account expenditures.

Robbins' most recent financial audit for the year ended April 30, 2005 also noted a lack of proper fiscal controls, including the transfer of grant funds to pay payroll and other non-grant related expenses. Grant funds were often transferred to the general fund and appropriate expenditures could not be identified. The audit recommended the Village prepare fiscal and operating procedures.

We recommended that the Village improve controls over grant funds to ensure that they are spent only for the purposes specified in the grant. Additionally, we recommended that officials ensure that documentation of all MEDF account expenditures is retained. Robbins officials responded that they are working with their outside auditor to implement policies and procedures to improve controls over all Village funds.

We audited the Statements of Cash Receipts to the Village of Robbins from the Municipal Economic Development Fund and Cash Disbursements made by the Village of Robbins from those cash receipts for the year ended December 31, 2007. We concluded that the financial statements were fairly presented in all material respects. Appendix B to the full report contains the Independent Auditor's Reports. (pages 4-10)

AGENCY RESPONSE

The Village of Robbins concurred with the conclusions in the audit. The full text of the Village's response is included as Appendix C of the report.



WILLIAM G. HOLLAND
Auditor General

WGH/BH
November 2008