



STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AUDIT OF THE

**ILLINOIS AQUACULTURE
DEVELOPMENT FUND**

ILLINOIS DEPARTMENT OF AGRICULTURE

SEPTEMBER 2004

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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

This is our report of the Management Audit of the Illinois Aquaculture Development Fund within the Illinois Department of Agriculture.

The audit was conducted pursuant to Legislative Audit Commission Resolution Number 127. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

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

A handwritten signature in blue ink, appearing to read "William G. Holland", written over a horizontal line.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
September 2004

REPORT DIGEST

MANAGEMENT AUDIT OF THE

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OF AGRICULTURE

Released: September 2004



State of Illinois
Office of the Auditor General

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SYNOPSIS

In Fiscal Years 2000 through 2004, the Illinois Department of Agriculture (Agriculture) distributed \$4,931,000 of State support for aquaculture to the Illinois Fish Farmers Cooperative (Cooperative) located in Pinckneyville, Illinois. Additional State funding of \$2,020,000 was provided as capital support for the Cooperative's fish processing plant.

Operations at the fish processing plant began in October 2001 and continued until the plant was formally shut down in September 2003. Legislation passed by the General Assembly on July 24, 2004, and signed by the Governor on July 30, 2004, abolished the Illinois Aquaculture Development Fund effective August 31, 2004 (Public Act 93-839). The audit concluded the following:

- The Cooperative did not have an adequate business plan, and the plan that was developed was not completed until January 2001, in the middle of the second year in which the Cooperative was receiving State funding for operations and capital. At that point, the Cooperative had already received over \$3.2 million in capital and operating grant funding from the State.
- We identified some expenditures of the Illinois Fish Farmers Cooperative that were questionable for an entity receiving substantial State support. Those included taking a loss for fish farmers, expenditures for a shrimp festival, some meal, travel and advertising expenditures, as well as executive payments for relocation and severance.
- Agriculture did not develop administrative rules related to distributing Aquaculture Development Act funds as required by the Aquaculture Development Act (20 ILCS 215/5.5). Establishing adequate procedures and administrative rules could provide additional guidance and structure to the grant program as well as helping to ensure State resources are expended for the purpose intended and that adequate accountability exists.
- The Cooperative generally kept adequate minutes, books, and records, but we did find examples where adequate records were not maintained. We also found documentation that showed that the Cooperative Board refused to make certain information in its records public as required by the Aquaculture Development Act.

REPORT CONCLUSIONS

Since Fiscal Year 2000, the Illinois Fish Farmers Cooperative (Cooperative) received \$4,931,000 of State support for aquaculture from the Illinois Department of Agriculture. The aquaculture support was \$1 million per year from Fiscal Years 2000 to 2003 and \$931,000 in Fiscal Year 2004. In Fiscal Year 2000, the appropriation was from the General Revenue Fund but in other years the support was from the Illinois Aquaculture Development Fund. An additional \$2,020,000 in capital support for the Cooperative's fish processing plant was provided from the General Revenue and Capital Development Funds.

Funding to support aquaculture was established when the Aquaculture Development Act was revised by Public Act 91-530, effective August 13, 1999, to require the Department of Agriculture (Agriculture) to make grants to an aquaculture cooperative from the Illinois Aquaculture Development Fund, a special fund created in the State Treasury. The Act required that each July 1st from 1999 through 2008, the Comptroller order transferred and the Treasurer transfer \$1 million from the General Revenue Fund into the Illinois Aquaculture Development Fund. Legislation passed by the General Assembly on July 24, 2004, and signed by the Governor on July 30, 2004, abolished the Illinois Aquaculture Development Fund effective August 31, 2004 (Public Act 93-839).

With State support, the Illinois Fish Farmers Cooperative developed a fish processing plant along with providing technical services to fish farmers and marketing aquaculture products. Processing operations began in October 2001 and continued until the plant was formally shut down in September 2003. In summary, during Fiscal Years 2000 and 2001 the plant was in the development stages, during Fiscal Years 2002 and 2003 the fish processing plant was operational, and during Fiscal Year 2004 the processing plant ceased operations.

Since the closure of the processing plant, the Cooperative continues to provide technical assistance for fish farmers and assist farmers to find a market for their aquaculture products. With its current operation, the Cooperative does not need its large processing plant and is attempting to sell it. Currently the Cooperative produces some income from member dues, from brokerage fees on fish sales, and from ordering aquaculture equipment and reselling to members. Without State support, other ways of producing income would probably have to be developed for the Cooperative to continue.

The Cooperative did not have an adequate business plan, and the plan that was developed was not completed until January 2001, in the

middle of the second year in which the Cooperative was receiving State funding for operations and capital. At that point, the Cooperative had already received over \$3.2 million in capital and operating grant funding from the State. The Department of Agriculture did not provide documentation that it had requested or reviewed the Cooperative's business plan.

As of April 13, 2004, the Cooperative still had outstanding debt in excess of \$500,000. The debt consisted primarily of three items: first, a loan from the City of Pinckneyville, which is State money passed through the City; second, a loan that is federal money from the USDA Intermediary Relending Program, also passed through the City; and third, a bank note. Cooperative officials hope that the sale of the processing facility building would provide the revenue necessary to pay the loans off.

We identified some expenditures of the Illinois Fish Farmers Cooperative that were questionable for an entity receiving substantial State support. Those included taking a loss for fish farmers, expenditures for a shrimp festival, some meal, travel and advertising expenditures, as well as executive payments for relocation and severance.

Although we questioned some expenditures, those that we reviewed were generally within the statutory purposes of the Illinois Aquaculture Development Act. However, because the statute is written so broadly, it established few limitations on whether expenditures are allowable.

The Illinois Department of Agriculture did not develop administrative rules related to distributing Aquaculture Development Act funds as required by the Aquaculture Development Act (20 ILCS 215/5.5). Establishing adequate procedures and administrative rules could provide additional guidance and structure to the grant program as well as helping to ensure State resources are expended for the purpose intended and that adequate accountability exists.

Audits of the Illinois Fish Farmers Cooperative were performed each fiscal year through 2003 as required. The audits found no instances of noncompliance that would be required to be reported under applicable financial auditing standards.

The Cooperative generally kept adequate minutes, books, and records, but we did find examples where adequate records were not maintained. We also found documentation that showed that the Cooperative Board refused to make certain information in its records public as required by the Act.

The Department of Agriculture did not adequately monitor grants to the Cooperative. It did not consistently use statutory tools that were available including required budget review and required audits. In addition, Agriculture did not assign staff who consistently monitored the grant. It also did not assure that all grant agreement requirements were complied with.

BACKGROUND

On February 17, 2004, the Illinois Legislative Audit Commission adopted LAC Resolution Number 127. The Resolution directed the Auditor General to conduct a management audit of the Illinois Aquaculture Development Fund within the Department of Agriculture. The audit was to include the following determinations with regard to the Aquaculture Cooperative:

- The amount and purpose of expenditures and transfers from the Illinois Aquaculture Development Fund for Fiscal Years 2001, 2002, and 2003;
- Whether expenditures and transfers from the Illinois Aquaculture Development Fund made in Fiscal Years 2001, 2002, and 2003 appear to be in conformity with applicable rules and statutes;
- Whether all minutes, books, budgets and records required under the Act to be kept and made available to the public by the Aquaculture Cooperative have been maintained for Fiscal Years 2001, 2002, and 2003; and
- Whether the financial books and records of the Aquaculture Cooperative were audited by a certified public accountant at least once each fiscal year for 2001, 2002, and 2003, as required by statute. (page 3)

AQUACULTURE DEVELOPMENT IN ILLINOIS

The Illinois Aquaculture Development Act, effective January 1, 1988, was passed to establish a policy and program toward improving the science and husbandry of aquaculture as a means to expand the aquaculture industry and related economic activity in the State. The Act defined “aquaculture” as the controlled propagation, growth and harvest of aquatic organisms, including but not limited to fish, shellfish, mollusks, crustaceans, algae and other aquatic plants, by an aquaculturist.

The Aquaculture Development Act was revised by Public Act 91-530, effective August 13, 1999, to require Agriculture to make grants to an

The Illinois Aquaculture Development Act was effective January 1, 1988.

aquaculture cooperative. The grants would come from the Illinois Aquaculture Development Fund, a special fund created in the State Treasury. On July 1, 1999, and on each July 1 thereafter through July 1, 2008, the Comptroller shall order transferred and the Treasurer shall transfer \$1,000,000 from the General Revenue Fund into the Illinois Aquaculture Development Fund. The Aquaculture Cooperative shall consist of any individual or entity of the aquaculture industry in the State that seeks membership pursuant to the Agricultural Cooperative Act (805 ILCS 315).

In Fiscal Year 2000, the Illinois Department of Agriculture gave the first aquaculture grant to the Illinois Fish Farmers Cooperative.

In Fiscal Year 2000, the Department of Agriculture gave the first aquaculture grant to the Illinois Fish Farmers Cooperative. The Cooperative was organized under the Illinois Agricultural Cooperative Act (805 ILCS 315) and had a board of directors composed of 11 members who were primarily individuals involved in fish farming.

In the fall of 1999 the Cooperative moved into a building in Pinckneyville that had been a warehouse. An engineering firm and a firm that makes fish processing equipment worked with the Cooperative on the design of the plant. Construction for the processing facility began on the approximately 42,000 square foot building around April 2001. Fish processing operations began in October 2001 and continued until the plant was formally shut down in September 2003. In summary, during Fiscal Years 2000 and 2001 the plant was in the development stages, during Fiscal Years 2002 and 2003 the fish processing plant was operational, and during Fiscal Year 2004 the processing plant ceased operations.

The plant was primarily designed to process catfish which was the centerpiece of the Cooperative's initial strategy. The decision to process catfish had been based upon assumptions concerning profitability and growth opportunities. A drop in the prices for catfish came as a result of the decline in the economy following the terrorist attacks of September 11, 2001, and changes in the aquaculture industry.

By October 2002, the processing plant was having significant financial problems.

By October 2002, the processing plant was having significant financial problems. A Cooperative official said they tried everything they could from increasing production to reducing production and focusing on specialized products, but were never able to reach a break-even point.

While the plant was operating, odor from the waste lagoons became a problem for the Cooperative and the processing plant's neighbors. As of May 2004, the Cooperative was waiting for Illinois Environmental Protection Agency to complete inspections of the waste lagoons. One of the lagoons has been cleared of environmental issues. Before it can be cleared by EPA, the other lagoon must have the remaining water and sludge removed. This environmental issue is an obstacle to the Cooperative's efforts to sell the building.

Since the plant's closure, most processing equipment has been sold. As of May 2004, only two pieces of equipment remained. Both were specialized pieces of equipment that are difficult to sell. The Cooperative had retained four vehicles, two pickups used by biologists who provided technical assistance to fish farmers, a minivan, and a refrigerated delivery

Digest Exhibit 1 ILLINOIS FISH FARMERS COOPERATIVE OUTSTANDING LONG TERM DEBT As of April 13, 2004	
Pinckneyville (CDAP and IRP)	\$452,357
Bank Note	<u>\$ 48,382</u>
Total	<u>\$500,739</u>
Note: This does not include various accounts payable of approximately \$50,000. Source: Illinois Fish Farmers Cooperative.	

truck. As of April 13, 2004, the Cooperative still had outstanding long-term debt in excess of \$500,000. Digest Exhibit 1 shows the debt outstanding. The CDAP loan from Pinckneyville is State money passed through the City. The IRP loan is federal money from

the USDA Intermediary Relending Program which is also passed through the City. Cooperative officials hope that the sale of the processing facility building will provide the revenue necessary to pay the loans off. In addition to the long term debt, the Cooperative had accounts payable of approximately \$50,000. These included obligations to a mechanical contractor, a law firm, an accounting firm, and the Illinois Environmental Protection Agency.

According to a Cooperative official, the impact of closing was minimal for fish farmers because most were using live hauls to get their fish to market or had switched to different fish that can be sold live. Since the closure of the processing plant, the Cooperative continues to provide technical assistance for fish farmers and assist farmers to find a market for their aquaculture products. With its current operation, the Cooperative does not need the large plant that it currently has. Currently the Cooperative produces some income from member dues, from brokerage fees on fish sales, and from ordering aquaculture equipment and reselling to members. Without State support, other ways of producing income would probably have to be developed for the Cooperative to continue.
 (pages 3-6)

The Cooperative Business Plan

The late time at which a business plan was developed and the weaknesses that we noted in the plan may have contributed to problems at the Cooperative.

The Cooperative did not have an adequate business plan, and the plan that was developed was not completed until January 2001, in the middle of the second year in which the Cooperative was receiving State funding for operations and capital. At that point, the Cooperative had already received over \$3.2 million in capital and operating grant funding from the State. The Department of Agriculture did not provide documentation that it had requested or reviewed the Cooperative’s business plan.

The late time at which a business plan was developed and the weaknesses that we noted in the plan may have contributed to problems at the Cooperative and may have made it difficult for Agriculture to assess whether releasing grant funding to the Cooperative was appropriate. (pages 7-8)

AQUACULTURE EXPENDITURES

The State provided \$6.95 million to the Illinois Fish Farmers Cooperative from Fiscal Years 2000 to 2004.

Digest Exhibit 2 shows the State’s expenditures to the Illinois Fish Farmers Cooperative for Fiscal Years 2000 to 2004. The Cooperative received a total of \$6,951,000 in State funding. In Fiscal Year 2000, the operating grant money was appropriated from the General Revenue Fund instead of the Aquaculture Development Fund. In Fiscal Year 2001, the Cooperative received a State capital grant in the amount of \$1,220,000. This grant was made to the Cooperative along with the City of Pinckneyville. The grant agreement stated that the funds were to be used for capital costs related to the establishment of a fish processing plant. The Cooperative also received an \$800,000 State capital grant in Fiscal Year 2002 for the same purpose.

Digest Exhibit 2
STATE EXPENDITURES FOR THE ILLINOIS FISH FARMERS COOPERATIVE
 Fiscal Years 2000 to 2004

	FY00	FY01	FY02	FY03	FY04	Total
From the Aquaculture Development Fund		\$1,000,000	\$1,000,000	\$1,000,000	\$931,000	\$3,931,000
From the General Revenue Fund	\$1,000,000 ^A		\$800,000 ^C			\$1,800,000
From the Capital Development Fund		\$1,220,000 ^B				\$1,220,000
Total	\$1,000,000	\$2,220,000	\$1,800,000	\$1,000,000	\$931,000	\$6,951,000

^A The first year’s grant was from the General Revenue Fund instead of the Aquaculture Development Fund.
^B Granted to the Fish Farmers Cooperative and the City of Pinckneyville for capital costs related to the establishment of the fish processing plant.
^C Granted to the Fish Farmers Cooperative for capital costs related to the establishment of the fish processing plant.

Source: Illinois Comptroller and grant agreement information summarized by OAG.

During Fiscal Years 2000 through 2003, the Cooperative's expenditures totaled \$11.9 million. Digest Exhibit 3 shows the percentage of the total expenditures for each category of expenditures. This exhibit is based on financial statements from required audits of the Cooperative. In the first two years of existence, because of grant moneys, the Cooperative's financial statements showed an excess of revenues over expenditures. However, in Fiscal Year 2002, once the fish processing plant became operational, expenditures exceeded revenues by nearly \$700,000. In Fiscal Year 2003, expenditures exceeded revenues by nearly \$500,000.

Digest Exhibit 3 ILLINOIS FISH FARMERS COOPERATIVE EXPENDITURES BY TYPE Fiscal Years 2000 to 2003		
<u>Category</u>	<u>Total Expenditures</u>	<u>% of Total</u>
Purchases of products for resale	\$3,702,679	31.0%
Plant expenses	1,414,272	11.9%
Selling expenses	228,993	1.9%
General and administrative costs:		
Salaries	1,869,341	15.7%
Taxes and benefits	222,381	1.9%
Marketing costs	54,528	0.5%
High School Grants	100,470	0.8%
Grand Opening, Net	14,102	0.1%
Insurance	287,584	2.4%
Office expenses	94,537	0.8%
Legal fees	262,223	2.2%
Accounting fees	147,333	1.2%
Other expenses	173,565	1.5%
Purchase of capital assets	3,323,454	27.8%
Debt service – interest	<u>39,120</u>	<u>0.3%</u>
Total expenditures before taxes	<u>\$11,934,582</u>	<u>100.0%</u>
Source: Cooperative audit data summarized by OAG.		

We identified some Cooperative expenditures that may be questionable for an entity receiving substantial State support. Those expenditures included taking a loss for fish farmers, some meal and travel expenditures, expenditures for a shrimp festival and radio advertising when the Cooperative was experiencing severe financial problems, and executive payments and severance packages for executives when the processing plant failed.

Taking a Loss for Fish Farmers

The Cooperative took a loss totaling \$14,335.53 on three pre-purchased fish contracts, including two with Board members, instead of the producers (fish farmers) taking the losses. Losses taken included \$6,250 and \$1,485 for two Board members and \$6,600 for a non-Board member.

Meal and Travel Expenditures

Expenditure reports for Fiscal Years 2000 through 2003 showed that the Cooperative spent \$7,409 to an account called Meals. Meals were also charged to other accounts such as Sales Meals, Board Meetings, and Miscellaneous Expense. While receipts for the meals were documented, there was no documentation that meals were for a legitimate purpose (such as meeting with potential customers or vendors).

Travel expenditures for Fiscal Years 2000 through 2003 totaled \$39,252. We identified travel expenditures of \$837 for the Executive Director for trips to Boston (March 2003) and New York (August 2003). Both of these trips took place when the Cooperative was struggling financially. We asked the Cooperative for documentation of the purpose of the trips and documentation that the Board minutes showed that expenditures were approved. For the trip to Boston, it appeared that the Cooperative paid for two plane tickets, one for the Executive Director and one for an individual not employed by the Cooperative. Although the trips are listed among expenditures in the Board minutes and reports, the purpose of the trips was never identified. Cooperative officials said the trips were for a seafood show and to meet with a buyer, but no documentation of that could be provided.

Shrimp Festival and Advertising

In Fiscal Year 2004, the Cooperative sponsored a Shrimp Festival at the Du Quoin State fairgrounds. It was held in October 2003 after the fish processing plant had been formally shut down in September 2003. The total cost for the festival was \$12,091. Cooperative officials noted that they intended to generate income from the festival to cover its costs and that revenues of \$3,375 were obtained from donations, booth rentals and games. Although promotion of shrimp farming may be acceptable for an ongoing entity, it seems questionable for the Cooperative that was experiencing severe financial problems. According to an Agriculture official, the Department had planned to participate but decided not to have a booth at the Festival because officials did not want to send any type of message to the Cooperative that the Department might support future Cooperative activities.

In addition to the Shrimp Festival and its associated advertising, the Cooperative also had a contract with a radio group for advertising. The Cooperative eventually paid the radio group \$15,790 for about 12 months, mostly in Fiscal Year 2003. The Cooperative's second executive director tried to cancel the contract in January 2003. Because the Cooperative fell behind in paying the radio advertising bills, there was a dispute over payments. Eventually \$2,359 of the debt was written off.

Executive Payments

The Cooperative made various executive payments for relocation and severance that it may not have been obligated to make. Two executives were paid \$5,000 each for relocation even though their employment agreements did not call for the benefit. In addition, the Cooperative paid \$55,427 as part of executive severance packages even though it may not have been obligated to make these payments.

We recommended that Agriculture and the Illinois Fish Farmers Cooperative ensure that any future expenditures to support aquaculture are adequately planned, appropriate for State purposes, and adequately documented. (pages 12-19)

The Cooperative paid \$55,427 as part of executive severance packages even though it may not have been obligated to make these payments.

COMPLIANCE WITH STATUTORY PROVISIONS

The Illinois Department of Agriculture did not develop administrative rules related to distributing Aquaculture Development Act funds as required by the Aquaculture Development Act (20 ILCS 215/5.5). Establishing adequate procedures and administrative rules could provide additional guidance and structure to the grant program as well as helping to ensure State resources are expended for the purpose intended and that adequate accountability exists. We recommended that Agriculture establish adequate rules and procedures to administer and monitor grants to aquaculture cooperatives, as required by the Illinois Aquaculture Development Act.

Audits of the Illinois Fish Farmers Cooperative were performed each fiscal year through 2003 as required. The Aquaculture Development Act (20 ILCS 215) established the requirement that the financial books and records of the Cooperative shall be audited by a certified public accountant at least once each fiscal year and at other times as designated by the Director. One accounting firm performed each of the annual audits of the operating and capital grants, on a regulatory basis, in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards. The audits found no instances of noncompliance that

Required audits of the Cooperative were performed each fiscal year through 2003.

would be required to be reported under the standards. There were no matters involving internal controls over financial reporting and its operations that would be considered material weaknesses. There was one instance of a reportable condition from the Fiscal Year 2000 audit which found that inadequate controls existed with respect to aquaculture grants which were awarded to Illinois high schools. This condition was later remedied by the Cooperative.

Required Budgets and Review

Although Agriculture received budgets from the Illinois Fish Farmers Cooperative for each of the five fiscal years, the Department could only document commenting on three of those budgets. The Aquaculture Development Act requires budgets to be submitted by the Cooperative and reviewed by the Department when grant funding is provided. Budget review is an important element of monitoring Aquaculture grants. Agriculture should assure that all grant funds, particularly those from the Illinois Aquaculture Development Fund, are adequately monitored.

Required Minutes, Books, and Records

The Cooperative generally kept adequate minutes, books, and records, but we did find examples where adequate records were not maintained. We also found documentation that showed that the Cooperative Board refused to make information in its records public. The Aquaculture Development Act requires that “The Cooperative shall keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public” (20 ILCS 215/5.5).

We noted two examples where records may not have been made available to the public. In Cooperative Board minutes dated April 18, 2000, the minutes reflect that the Aquaculture Advisory Board (created by the Cooperative bylaws) had requested copies of Cooperative Board meeting minutes. The Cooperative Board decided that the minutes would be circulated to Cooperative Board members only with a summary to the advisory board. Also, in letters from November and December 2001, limitations on public access to minutes and financial records are also noted.

We recommended that the Department of Agriculture assure that the Illinois Fish Farmers Cooperative, or other cooperatives receiving Aquaculture Development grants, keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and make this information public, as required by the Aquaculture Development Act. (pages 21-27)

MONITORING

The Department of Agriculture did not adequately monitor grants to the Cooperative. It did not consistently use statutory tools that were available including required budget review and required audits. In addition, Agriculture did not assign staff who consistently monitored the grant. It also did not assure that all grant agreement requirements were complied with. Without considering over \$2 million in capital grants, Agriculture disbursed a total of \$4,931,000 in Aquaculture Development grants since Fiscal Year 2000 to the Illinois Fish Farmers Cooperative. The grants were made by the Department under the authority and direction of the Aquaculture Development Act (20 ILCS 215/5.5).

The Department of Agriculture did not adequately monitor grants to the Cooperative.

We recommended that the Illinois Department of Agriculture assure that all grant funds, including those from the Illinois Aquaculture Development Fund, are adequately monitored. This should include reviewing and making changes based on audits, budgets, or other required elements. (pages 28-29)

RECOMMENDATIONS

The audit report contains four recommendations which are noted in this digest. The Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative generally agreed with the recommendations. Appendix I to the audit report contains the complete responses.

The audit also contains one Matter for Consideration by the General Assembly. It is included because Public Act 93-839, passed by the General Assembly on July 24, 2004, and signed by the Governor on July 30, 2004, abolished the Illinois Aquaculture Development Fund effective August 31, 2004. However, references to the Illinois Aquaculture Development Fund remain in the statute, and may need to be amended to conform to the changes made by Public Act 93-839.



WILLIAM G. HOLLAND
Auditor General

WGH\EKW

September 2004

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Chapter One

INTRODUCTION AND BACKGROUND

REPORT CONCLUSIONS

Since Fiscal Year 2000, the Illinois Fish Farmers Cooperative (Cooperative) received \$4,931,000 of State support for aquaculture from the Illinois Department of Agriculture. The aquaculture support was \$1 million per year from Fiscal Years 2000 to 2003 and \$931,000 in Fiscal Year 2004. In Fiscal Year 2000, the appropriation was from the General Revenue Fund but in other years the support was from the Illinois Aquaculture Development Fund. An additional \$2,020,000 in capital support for the Cooperative's fish processing plant was provided from the General Revenue and Capital Development Funds.

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Since the closure of the processing plant, the Cooperative continues to provide technical assistance for fish farmers and assist farmers to find a market for their aquaculture products. With its current operation, the Cooperative does not need its large processing plant and is attempting to sell it. Currently the Cooperative produces some income from member dues, from brokerage fees on fish sales, and from ordering aquaculture equipment and reselling to members. Without State support, other ways of producing income would probably have to be developed for the Cooperative to continue.

The Cooperative did not have an adequate business plan, and the plan that was developed was not completed until January 2001, in the middle of the second year in which the Cooperative was receiving State funding for operations and capital. At that point, the Cooperative had

already received over \$3.2 million in capital and operating grant funding from the State. The Department of Agriculture did not provide documentation that it had requested or reviewed the Cooperative's business plan.

As of April 13, 2004, the Cooperative still had outstanding debt in excess of \$500,000. The debt consisted primarily of three items: first, a loan from the City of Pinckneyville, which is State money passed through the City; second, a loan that is federal money from the USDA Intermediary Relending Program, also passed through the City; and third, a bank note. Cooperative officials hope that the sale of the processing facility building will provide the revenue necessary to pay the loans off.

We identified some expenditures of the Illinois Fish Farmers Cooperative that were questionable for an entity receiving substantial State support. Those included taking a loss for fish farmers, expenditures for a shrimp festival, some meal, travel and advertising expenditures, as well as executive payments for relocation and severance.

Although we questioned some expenditures, those that we reviewed were generally within the statutory purposes of the Illinois Aquaculture Development Act. However, because the statute is written so broadly, it established few limitations on whether expenditures are allowable.

The Illinois Department of Agriculture did not develop administrative rules related to distributing Aquaculture Development Act funds as required by the Aquaculture Development Act (20 ILCS 215/5.5). Establishing adequate procedures and administrative rules could provide additional guidance and structure to the grant program as well as helping to ensure State resources are expended for the purpose intended and that adequate accountability exists.

Audits of the Illinois Fish Farmers Cooperative were performed each fiscal year through 2003 as required. The audits found no instances of noncompliance that would be required to be reported under applicable financial auditing standards.

The Cooperative generally kept adequate minutes, books, and records, but we did find examples where adequate records were not maintained. We also found documentation that showed that the Cooperative Board refused to make certain information in its records public as required by the Act.

The Department of Agriculture did not adequately monitor grants to the Cooperative. It did not consistently use statutory tools that were available including required budget review and required audits. In addition, Agriculture did not assign staff who consistently monitored the grant. It also did not assure that all grant agreement requirements were complied with.

BACKGROUND

On February 17, 2004, the Illinois Legislative Audit Commission adopted LAC Resolution Number 127. The Resolution directed the Auditor General to conduct a management audit of the Illinois Aquaculture Development Fund within the Department of Agriculture (Agriculture). The audit is to include, but need not be limited to, the following determinations with regard to the Aquaculture Cooperative:

- The amount and purpose of expenditures and transfers from the Illinois Aquaculture Development Fund for Fiscal Years 2001, 2002, and 2003;
- Whether expenditures and transfers from the Illinois Aquaculture Development Fund made in Fiscal Years 2001, 2002, and 2003 appear to be in conformity with applicable rules and statutes;
- Whether all minutes, books, budgets and records required under the Act to be kept and made available to the public by the Aquaculture Cooperative have been maintained for Fiscal Years 2001, 2002, and 2003; and
- Whether the financial books and records of the Aquaculture Cooperative were audited by a certified public accountant at least once each fiscal year for 2001, 2002, and 2003, as required by statute.

FEDERAL AND STATE LAWS

In September 1980, federal law was signed which created the National Aquaculture Act. The purpose of the federal Act was to promote aquaculture in the United States by declaring a national aquaculture policy; establishing and implementing a national aquaculture development plan; establishing the U.S. Department of Agriculture as the lead Federal agency; establishing the National Aquaculture Information Center; and encouraging aquaculture activities and programs in both the private and public sectors of the economy.

State Laws

In response to the establishment of aquaculture policy, planning, and development at the federal level, Illinois Public Act 85-856 established the Illinois Aquaculture Development Act (Act) (codified at 20 ILCS 215, effective January 1, 1988). The Act as amended is included as Appendix C of this report. The Act's purpose was to establish a policy and program toward improving the science and husbandry of aquaculture as a means to expand the aquaculture industry and related economic activity in the State. The Act defined "aquaculture" as the controlled propagation, growth and harvest of aquatic organisms, including but not limited to fish, shellfish, mollusks, crustaceans, algae and other aquatic plants, by an aquaculturist.

The Illinois Aquaculture Development Fund

The Aquaculture Development Act was revised by Public Act 91-530, effective August 13, 1999, to require Agriculture to make grants to an aquaculture cooperative. The grants would come from the Illinois Aquaculture Development Fund, a special fund created in the State Treasury. On July 1, 1999, and on each July 1 thereafter through July 1, 2008, the Comptroller shall order transferred and the Treasurer shall transfer \$1,000,000 from the General Revenue Fund into the Illinois Aquaculture Development Fund. The Aquaculture Cooperative shall consist of any individual or entity of the aquaculture industry in the State that seeks membership pursuant to the Agricultural Cooperative Act (805 ILCS 315). Several requirements of the Cooperative were included in the Act:

- Budget plans – At the beginning of each fiscal period, the Cooperative shall prepare a budget plan for the next fiscal period, including the probable cost of all programs, projects, and contracts. The Cooperative shall submit the proposed budget to the Director of Agriculture for review and comment.
- Minutes, books, and records – The Cooperative shall keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public.
- Audits – The financial books and records of the Cooperative shall be audited by a certified public accountant at least once each fiscal year and at other times as designated by the Director. Copies of the audit shall be provided to all members of the Cooperative, to the Department of Agriculture, and to other requesting members of the aquaculture industry.

The Act also specifies the purposes for which the grants can be used. Compliance with requirements of the Act were tested as part of this audit. Further discussion of the Act's requirements and compliance with those and other statutory requirements are included in Chapter Three of this report.

AQUACULTURE DEVELOPMENT IN ILLINOIS

In Fiscal Year 2000, the Department of Agriculture gave the first aquaculture grant to the Illinois Fish Farmers Cooperative. As is required, the Cooperative was organized under the Illinois Agricultural Cooperative Act (805 ILCS 315) and had a board of directors composed of 11 members who were primarily individuals involved in fish farming. To be a full member of the Cooperative, individuals must be aquaculturists licensed by the Illinois Department of Natural Resources. Non-Illinois residents may also become full members by holding a Natural Resources non-resident fish dealer's license. The Cooperative also includes affiliate members who need not be licensed aquaculturists. Appendix D of this report is a map of Cooperative members in 2003 and Appendix E shows the number of Cooperative full and affiliate members by county in 2003.

On September 2, 1999, the Governor announced in a press release that \$10 million in grants would be given to support fish farming over the next ten years. The press release noted that the Illinois Fish Farmers Cooperative predicted that 150 jobs would be created when the fish processing plant was fully operational. Appendix F of this report is a more complete chronology of events for the Cooperative. The plant employed about 50 at its peak but after processing ceased in September 2003 most employees were laid off. As of May 2004 the Cooperative had four employees. Early discussions of the fish processing plant included the possibility of processing fish at the prison in Pinckneyville. According to a Cooperative official, use of prison labor was found to be impractical from a cost and safety perspective.

In the fall of 1999 the Cooperative moved into a building in Pinckneyville that had been a warehouse. A photo of the facility is shown to the right. An engineering firm and a firm that makes fish processing equipment worked with the Cooperative on the design of the plant. Construction for the processing facility began on the approximately 42,000 square foot building in around April 2001. Fish processing operations began



in October 2001 and continued until the plant was formally shut down in September 2003. Fish processing was occurring mainly during Fiscal Years 2002 and 2003. During Fiscal Years 2000 and 2001 the plant was in the development stages, and during Fiscal Year 2004 the processing plant ceased operations.

The plant was primarily designed to process catfish which was the centerpiece of the Cooperative's initial strategy. The decision to process catfish had been based upon assumptions concerning profitability and growth opportunities. A drop in the prices for catfish came as a result of the decline in the economy following the terrorist attacks of September 11, 2001, and changes in the aquaculture industry. Some of the changes are discussed in the next section.

By October 2002, the processing plant was having significant financial problems. A Cooperative official said they tried everything they could, from increasing production to reducing production and focusing on specialized products, but were never able to reach a break-even point.

The processing facility had two production lines: one automated and one manual. The automatic line could only be used for processing catfish. The manual line could be used to process other species of fish and fresh water prawns. For processing, the plant had built two waste lagoons. The lagoons were developed using a \$485,000 loan from the City of

Pinckneyville. The City received the money from the State as a Community Development Assistance Program (CDAP) grant. While the plant was operating, odor from the lagoons became a problem for the Cooperative and the processing plant's neighbors. As of May 2004, the Cooperative was waiting for Illinois Environmental Protection Agency (EPA) to complete inspections of the waste lagoons. One of the lagoons had been cleared of environmental issues. Before it can be cleared by EPA, the other lagoon must have the remaining water and sludge removed. This environmental issue is an obstacle to the Cooperative's efforts to sell the building.

Since the plant's closure, most processing equipment has been sold. As of May 2004, only two pieces of equipment remained. Both were specialized pieces of equipment that are

difficult to sell. The Cooperative had retained four vehicles, two pickups used by biologists who provided technical assistance to fish farmers, a minivan, and a refrigerated delivery truck. As of April 13, 2004, the Cooperative still had outstanding long term debt in excess of \$500,000. Exhibit 1-1 shows the debt outstanding. The CDAP loan from Pinckneyville is State money passed through the City. The IRP loan is federal money from the U.S. Department of Agriculture (USDA) Intermediary Relending Program which is also passed through the City. Cooperative officials hope that the sale of the processing facility building will provide the revenue necessary to pay the loans off. In addition to the long term debt, the Cooperative had accounts payable of approximately \$50,000. These included obligations to a mechanical contractor, a law firm, an accounting firm, and the Illinois Environmental Protection Agency.

Exhibit 1-1 ILLINOIS FISH FARMERS COOPERATIVE OUTSTANDING LONG TERM DEBT As of April 13, 2004	
Pinckneyville (CDAP and IRP)	\$452,357
Bank Note	<u>\$ 48,382</u>
Total	<u>\$500,739</u>
Note: This does not include various accounts payable of approximately \$50,000.	
Source: Illinois Fish Farmers Cooperative.	

According to a Cooperative official, the impact of closing was minimal for fish farmers because most were using live hauls to get their fish to market or had switched to different fish that can be sold live. Since the closure of the processing plant, the Cooperative continues to provide technical assistance for fish farmers and assist farmers to find a market for their aquaculture products. With its current operation, the Cooperative does not need the large plant that it currently has. Currently the Cooperative produces some income from member dues, from brokerage fees on fish sales, and from ordering aquaculture equipment and reselling to members. Without State support, other ways of producing income would probably have to be developed for the Cooperative to continue.

The Cooperative has had three individuals who have headed the organization. The first executive director was hired by the Board in October 1999 and served until he left in September 2002. He had experience in aquaculture development but none in operating a business. The second executive director had been a legislative policy analyst who helped in obtaining funding for the Cooperative. He was involved with the Cooperative as a member and Board member

from the beginning. During much of his time as a Board member he was one of the individuals authorized to sign checks for the Cooperative. He was asked to take the position when the first executive director left. He acted in the capacity of executive director without pay until his contract started January 2003. He served until November 2003 and was in charge when fish processing ceased. In January 2004, the individual who had been a technical service manager since February 2000 took on additional responsibilities as Chief Executive Officer. A technical service manager provides technical assistance to members, including running a fish health diagnostic laboratory, coordinating educational programs, and coordinating and assisting with fish harvests. He is a marine biologist who had prior experience in aquaculture technical service in another state.

The Cooperative Business Plan

The Cooperative did not have an adequate business plan, and the plan that was developed was not completed until January 2001, in the middle of the second year in which the Cooperative was receiving State funding for operations and capital. At that point, the Cooperative had already received over \$3.2 million in capital and operating grant funding from the State. The Department of Agriculture did not provide documentation that it had requested or reviewed the Cooperative's business plan.

In May 2000, a proposal was signed by the Cooperative to use a consulting firm to help to develop a business plan. The Cooperative did not receive the first draft of the business plan until September 2000. The Executive Director then made revisions and corrections before the plan was finalized in January 2001.

Concerns about the plan were noted by a member of the Cooperative's Advisory Board. The Cooperative, in its corporate bylaws, created an advisory board made up of various representatives, including one each from the USDA and the Illinois Department of Agriculture and representatives from Illinois higher education institutions. In September and November 2001, the federal USDA representative sent letters to the Cooperative's Executive Director and Board President which contained concerns involving the Cooperative's financial status and projected business plan. The letters were also sent to the Department of Agriculture. Those letters noted that:

- The plan did not provide a market outlook or marketing strategy for the Cooperative's products, did not sufficiently cover the necessity of a marketing plan, and did little to address potential sales volume and expected product price levels.
- The plan did not provide information concerning the Cooperative's current and projected financial status, use of funds, cash flow, or balance sheets. The plan submitted did not provide any pro-forma financial statements.

Adequacy of the Business Plan

To assess the adequacy of the business plan that was created, we compared it with requirements outlined in a general business plan obtained from the Illinois Department of Commerce and Economic Opportunity and the U.S. Small Business Administration. The

Cooperative's business plan lacked critical information concerning marketing, planning, and strategy including:

- Estimated Sales and Market Share - Although the Cooperative's business plan identified estimated fish production and processing projections, the plan contained little discussion of estimated sales, market share, or expected sales revenue. The plan also failed to provide specific information such as major customers who had made, or were willing to make, purchase commitments.
- Selling and Distribution - The Cooperative's business plan indicated that it would hire a sales force to implement a marketing plan. The Cooperative hired a Sales Manager in September 2001, one month before the processing plant opened. No other sales personnel were hired. The Sales Manager's contract was bought out in June 2002 and a commission contract was established with a master broker.
- Market Trends/Competition - The USDA Aquaculture Outlook from October 2000 forecasted increased competition from imports of foreign aquaculture products. There was no mention of this competitive threat or how the Cooperative would respond in its business plan. Sound business practices dictate that financial projections and funding needs must be keyed to market expectations.

The late time at which a business plan was developed and the weaknesses that we noted in the plan may have contributed to problems at the Cooperative and may have made it difficult for Agriculture to assess whether releasing grant funding to the Cooperative was appropriate. At the end of Chapter Two, we note the business plan and its weaknesses as a possible contributing factor for various expenditures that we questioned.

AQUACULTURE INDUSTRY

Changes in the aquaculture industry, particularly for catfish, had a negative impact on the Illinois Fish Farmers Cooperative and its attempt to develop a successful processing plant. Catfish production had been the dominant and most successful sector in the U.S. aquaculture industry. Prior to 1999, sales by catfish farmers (producers) and processors had shown steady growth along with farm and processor prices. As a result, producer and processor revenues increased each year from 1996 through 2000. The favorable market and favorable outlook for producers and processors was the result of a combination of a strong domestic economy that boosted sales in the restaurant and foodservice sectors; minimal competition from imported foreign products; historically low feed costs; stable farm prices; and relatively low interest costs. All of these factors combined to provide incentives for catfish producers and processors to expand their operations.

By the end of 2000, the industry began to undergo significant changes. Industry trends that had previously resulted in solid growth were now causing the market to become more unpredictable, competitive and volatile. In 2001, as overall domestic economic growth slowed and the U.S. currency remained strong, the U.S. seafood market became more attractive to foreign aquaculture producers. One important area of the catfish market, frozen fillets, came

under heavy pressure from increased imports, especially from Vietnam. For U.S. producers and processors, the steady growth in production levels, a strong increase in the inventory of food-size fish, a slower economy, and increased competition from imports caused catfish prices to decline. Flat sales levels for processed products caused an increase in product inventory held by both growers and processors. By the end of 2001 and throughout 2002, pressure on producer prices resulted in sharp drops for both growers and processors. Gross processor revenues fell each year in 2001, 2002, and 2003.

In July 2003, the United States International Trade Commission (ITC) found that frozen catfish fillets from Vietnam had been sold on the U.S. market at less than fair values. Prior to the final ruling, a restrictive tariff had been imposed on the imported catfish. Reduced inventory holdings by producers and processors and a reduction in imported catfish combined to place some upward pressure on prices. Although farm and processor prices remain at low levels, sales for both producers and processors are increasing.

AQUACULTURE DEVELOPMENT EXPENDITURES

In Fiscal Years 2000 through 2004, \$4,931,000 was expended from the Illinois Aquaculture Development Fund or the General Revenue Fund to help the Illinois Fish Farmers Cooperative. The funds were used, as specified by the Illinois Aquaculture Development Act, to provide grants to an aquaculture cooperative. The funds were used primarily to operate a fish processing plant that could help fish farmers to have a market for their fish. In addition to these expenditures from the Aquaculture Development Fund, other support was provided by the State to assist the fish processing plant. In Fiscal Year 2000, a \$1,220,000 appropriation was made from the Capital Development Fund for the fish processing plant. This money was paid to the City of Pinckneyville where the Illinois Fish Farmers Cooperative is located. An additional \$800,000 was appropriated through a 2001 supplemental appropriation. That General Revenue Fund appropriation was made directly to the Illinois Fish Farmers Cooperative, also for the fish processing plant.

The processing plant got additional assistance through two loans from the City of Pinckneyville. These loans were both from grants the City received:

- CDAP grant for \$485,000 through the Department of Commerce and Community Affairs, and
- USDA grant for \$150,000. Pinckneyville loaned the money to the Cooperative but has not received full payment from the Cooperative.

Chapter Two of this report includes more detail, further discussion, and analysis of expenditures, transfers, and their purposes.

AUDIT SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

Fieldwork for this audit was conducted in May and June 2004. We interviewed representatives of the Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative. We reviewed documents at both agencies including grant agreements, correspondence, Cooperative Board minutes, expenditure files, and audits of the Cooperative. We reviewed internal controls at Agriculture related to statutory compliance and over the expenditure processes for grant funds expended by the Cooperative. We tested a sample of Cooperative expenditures from Fiscal Years 2000 through 2004 and analyzed electronic data provided by the Cooperative. A more complete description of our testing and analyses is in Appendix B of this report.

We reviewed the previous financial and compliance audits released by the Office of the Auditor General for the Illinois Department of Agriculture for issues relating to the Illinois Aquaculture Development Fund. We also reviewed audits of the Cooperative grant funds required by the statutes. We reviewed the working papers of the auditing firm to assure that the work performed was reliable.

We assessed risk and management controls by reviewing Agriculture and Cooperative internal documents and processes. We reviewed management controls relating to the audit's objectives established in Legislative Audit Commission Resolution 127 (see Appendix A). This audit identified some weaknesses in those controls, which are included as findings in this report.

In conducting the audit, we reviewed applicable State and federal statutes and rules. We reviewed compliance with applicable laws as directed by the resolution. Any instances of non-compliance we identified are noted in this report.

REPORT ORGANIZATION

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

- Chapter Two reviews the amount and purpose of expenditures and transfers.
- Chapter Three looks at compliance with applicable laws.

Chapter Two

AQUACULTURE DEVELOPMENT FUND EXPENDITURES

CHAPTER CONCLUSIONS

Since Fiscal Year 2000, the Cooperative received \$4,931,000 of State support for aquaculture plus \$2,020,000 in capital support for the fish processing plant. The aquaculture support was \$1 million per year from Fiscal Years 2000 to 2003 and \$931,000 in Fiscal Year 2004. The capital support came from the General Revenue and Capital Development Funds.

We identified some expenditures of the Illinois Fish Farmers Cooperative (Cooperative) that were questionable for an entity receiving substantial State support. Those included taking a loss for fish farmers, expenditures for a shrimp festival, some meal, travel and advertising expenditures, as well as executive payments for relocation and severance.

Although we questioned some expenditures, those that we reviewed were generally within the statutory purposes of the Illinois Aquaculture Development Act. However, because the statute is written so broadly, it established few limitations on whether expenditures are allowable.

BACKGROUND

Legislative Audit Commission Resolution Number 127 asked the Auditor General to determine two things regarding aquaculture expenditures:

- The amount and purpose of expenditures and transfers from the Illinois Aquaculture Development Fund for Fiscal Years 2001, 2002, and 2003; and
- Whether expenditures and transfers from the Illinois Aquaculture Development Fund made in Fiscal Years 2001, 2002, and 2003 appear to be in conformity with applicable rules and statutes.

Chapter Three of this report deals more specifically with compliance with statutes, but some issues related to the expenditures are covered in this chapter. The Aquaculture Development Act (20 ILCS 215) allows that grants to an aquaculture cooperative and the proceeds generated by the Cooperative may be used for the following purposes:

- 1) To buy aquatic organisms from members of the Cooperative.
- 2) To buy aquatic organism food in bulk quantities for resale to Cooperative members.
- 3) For transportation, hauling, and delivery equipment.
- 4) For employee salaries, building leases, and other administrative costs.
- 5) To purchase equipment for use by the Cooperative members.

6) Any other related costs (20 ILCS 215/5.5b).

Because the statute includes broad categories of allowable expenditures, including the final category of “any other related costs,” it establishes few limitations on what can be considered allowable. Beginning in Fiscal Year 2000, Agriculture entered into an annual grant agreement with the Illinois Fish Farmers Cooperative to receive the \$1 million a year appropriation. The grant agreements stated that the funds could be used for operating expenses related to the establishment, development, and operation of an aquaculture cooperative. The allowable expenditures in each year’s grant agreement mirrored the purposes listed in the Aquaculture Development Act. Generally, no further restrictions were established by the grant agreements except, in Fiscal Year 2004, the grant agreement was changed significantly by limiting expenditures to retire existing short-term debt or accounts payable. This was at a time the Cooperative was experiencing significant financial troubles and Agriculture wanted fish farmers who had sold fish to the Cooperative to be paid.

EXPENDITURES

Exhibit 2-1 shows the State’s expenditures to the Illinois Fish Farmers Cooperative for Fiscal Years 2000 to 2004. The Cooperative received a total of \$6,951,000 in State funding. In Fiscal Year 2000, the operating grant money was appropriated from the General Revenue Fund instead of the Aquaculture Development Fund. In Fiscal Year 2001, the Cooperative received a State capital grant in the amount of \$1,220,000. This grant was made to the Cooperative along with the City of Pinckneyville. The grant agreement stated that the funds were to be used for capital costs related to the establishment of a fish processing plant. The Cooperative also received an \$800,000 State capital grant in Fiscal Year 2002 for the same purpose.

Exhibit 2-1 STATE EXPENDITURES FOR THE ILLINOIS FISH FARMERS COOPERATIVE Fiscal Years 2000 to 2004						
	FY00	FY01	FY02	FY03	FY04	Total
From the Aquaculture Development Fund		\$1,000,000	\$1,000,000	\$1,000,000	\$931,000	\$3,931,000
From the General Revenue Fund	\$1,000,000 ^A		\$800,000 ^C			\$1,800,000
From the Capital Development Fund	_____	\$1,220,000 ^B	_____	_____	_____	\$1,220,000
Total	<u>\$1,000,000</u>	<u>\$2,220,000</u>	<u>\$1,800,000</u>	<u>\$1,000,000</u>	<u>\$931,000</u>	<u>\$6,951,000</u>
^A The first year’s grant was from the General Revenue Fund instead of the Aquaculture Development Fund. ^B Granted to the Fish Farmers Cooperative and the City of Pinckneyville for capital costs related to the establishment of the fish processing plant. ^C Granted to the Fish Farmers Cooperative for capital costs related to the establishment of the fish processing plant.						
Source: Illinois Comptroller and grant agreement information summarized by OAG.						

Exhibit 2-2
REVENUES AND EXPENDITURES
FOR THE ILLINOIS FISH FARMERS COOPERATIVE
Fiscal Years 2000 – 2003

	2000	2001	2002	2003	Total
Revenues					
Operating Grant	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 4,000,000
Capital Grant	-	1,220,000	800,000	-	2,020,000
Operating revenues	3,311	29,712	1,024,319	3,794,515	4,851,857
Other revenues	<u>22,860</u>	<u>96,456</u>	<u>93,672</u>	<u>65,066</u>	<u>278,054</u>
Total revenues	<u>1,026,171</u>	<u>2,346,168</u>	<u>2,917,991</u>	<u>4,859,581</u>	<u>11,149,911</u>
Expenditures					
Purchases of products for resale	13,196	48,623	790,421	2,850,439	3,702,679
Plant expenses ^A	29,863	39,037	451,025	894,347	1,414,272
Selling expenses ^B	12,567	8,676	47,527	160,223	228,993
General and administrative costs:					
Salaries	95,834	226,534	661,715	885,258	1,869,341
Taxes and benefits	30,095	24,008	86,419	81,859	222,381
Marketing costs	17,560	23,403	8,442	5,123	54,528
High School Grants	90,420	7,500	1,800	750	100,470
Grand Opening, Net	-	-	14,102	-	14,102
Insurance ^C	17,174	45,041	117,589	107,780	287,584
Office expenses	22,308	29,026	30,217	12,986	94,537
Legal fees	65,407	63,353	38,765	94,698	262,223
Accounting fees	19,904	51,084	24,382	51,963	147,333
Other expenses ^D	17,152	66,461	41,469	48,483	173,565
Purchase of capital assets	393,025	1,518,177	1,269,213	143,039	3,323,454
Debt service - interest	-	-	20,472	18,648	39,120
Income tax expense (benefit)	<u>80,114</u>	<u>(71,119)</u>	<u>(8,995)</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>904,619</u>	<u>2,079,804</u>	<u>3,594,563</u>	<u>5,355,596</u>	<u>11,934,582</u>
Excess (deficit) of revenues over expenditures	<u>\$121,552</u>	<u>\$266,364</u>	<u>\$(676,572)</u>	<u>\$(496,015)</u>	<u>\$(784,671)</u>
Notes:					
^A Plant expenses include items such as utilities, repairs and maintenance, plant supplies, and hauling expense.					
^B Selling expenses include meals, travel, sales expense, and brokerage fees.					
^C Insurance includes bonding and liability, general liability, workers' compensation, property insurance, and group health, life, and disability.					
^D Other expenses include items such as vehicle expense, real estate taxes, and miscellaneous costs.					
Source: Financial Statement Audits on a Regulatory Basis for Fiscal Years 2000 through 2003.					

Exhibit 2-2 shows revenues received and expenditures made by the Illinois Fish Farmers Cooperative for Fiscal Years 2000 to 2003. This exhibit is based on financial statements from independent audits of the Cooperative as required by the Aquaculture Development Act. In the first two years of existence, because of grant moneys, the Cooperative’s financial statements showed an excess of revenues over expenditures. However, in Fiscal Year 2002, once the fish processing plant became operational, expenditures exceeded revenues by nearly \$700,000. In Fiscal Year 2003, expenditures exceeded revenues by nearly \$500,000.

During Fiscal Years 2000 through 2003, the Cooperative’s expenditures totaled \$11.9 million. Exhibit 2-3 shows the percentage of the total expenditures for each category of expenditures.

Control over Expenditures

Although the expenditure process at the Cooperative is fairly simple since it was a small organization, it did have some controls over the process. The controls are in two basic areas. First, checks required two signatures and second, most expenditures were reported to the Board of Directors for its approval.

Exhibit 2-3 ILLINOIS FISH FARMERS COOPERATIVE EXPENDITURES BY TYPE Fiscal Years 2000 to 2003		
Category	Total Expenditures	% of Total
Purchases of products for resale	\$3,702,679	31.0%
Plant expenses	1,414,272	11.9%
Selling expenses	228,993	1.9%
General and administrative costs:		
Salaries	1,869,341	15.7%
Taxes and benefits	222,381	1.9%
Marketing costs	54,528	0.5%
High School Grants	100,470	0.8%
Grand Opening, Net	14,102	0.1%
Insurance	287,584	2.4%
Office expenses	94,537	0.8%
Legal fees	262,223	2.2%
Accounting fees	147,333	1.2%
Other expenses	173,565	1.5%
Purchase of capital assets	3,323,454	27.8%
Debt service – interest	<u>39,120</u>	<u>0.3%</u>
Total expenditures before taxes	<u>\$11,934,582</u>	<u>100.0%</u>
Source: Cooperative audit data summarized by OAG.		

TESTING RESULTS

In our testing we identified some Cooperative expenditures that may be questionable for an entity receiving substantial State support. Those expenditures included taking a loss for fish farmers, some meal and travel expenditures, expenditures for a shrimp festival and radio advertising when the Cooperative’s financial situation was precarious, and executive payments and severance packages for executives when the processing plant failed.

Taking a Loss for Fish Farmers

The Cooperative took a loss totaling \$14,335.53 on three pre-purchased fish contracts, including two with Board members, instead of the producers (fish farmers) taking the losses. The events that led to the Cooperative taking these losses started at the January 25, 2001 Board meeting, when the Board approved producer contracts for pre-purchased fish from four members of the Cooperative. Three of the four producers that entered into contracts were members of the Board. Exhibit 2-4 shows the four contracts, whether it was with a Board member, and the loss taken.

Three months later, at the April 17, 2001 Board meeting, the Board discussed concerns expressed from one of the producers (contract #1 - not a Board member) that a hard winter had caused much fatality to the fish that were stored in cages over winter. The producer had expressed concern about making a profit due to the amount already paid by the Cooperative for the fish and the amount of fish due to the Cooperative. The Executive Director recommended the Cooperative take inventory of the fish and take a loss. A motion was made by a Board member to approve inventory of the fish purchases for cage farmers and that the Cooperative would take a loss of fish that were lost over the winter.

The motion was approved. The Board member who made the motion was one of the producers (contract #3) who had entered into a contract. The other two producers (contract #2 and #4) that were also Board members abstained from voting. Later in Fiscal Year 2002, the Cooperative took a loss totaling \$14,335.53 on three of the contracts including two with Board members. No loss was taken on the fourth contract.

Exhibit 2-4 LOSSES TAKEN BY THE COOPERATIVE Fiscal Year 2002		
Contract	Board Member	Loss Taken
#1	N	\$6,600.08
#2	Y	\$6,250.45
#3 ^A	Y	\$1,485.00
#4	Y	<u>None</u>
Total		<u>\$14,335.53</u>
^A Member who made the motion for the Cooperative to take the loss. Source: Cooperative data summarized by OAG.		

Meal and Travel Expenditures

The next category of expenditure that we questioned were some meal and travel expenditures. It was common practice for executives of the Cooperative to have their meals reimbursed, including meals in Pinckneyville, where the Cooperative is located. Our testing showed that receipts for the meals were documented but there was no documentation that meals were with potential customers or vendors. A Cooperative official noted that if they were meeting as a group with farmers or prospective clients, they would pay for the meals and obtain reimbursement. However, he said that they would not note the purpose on the receipts. Expenditure reports that we obtained for Fiscal Years 2000 through 2003 showed that the Cooperative spent \$7,409 to an account called Meals. Meals were also charged to other accounts such as Sales Meals, Board Meetings, and Miscellaneous Expense. Of meals paid, some were meals from two local Pinckneyville restaurants. Meals included \$924 at a local steak house and \$858 at a local pizza eatery for a total of \$1,782. Although the amounts were not that large, it is

important that a struggling new business receiving State assistance at least document that the purpose of meal reimbursement is legitimate.

There were expenditures for the Cooperative for Fiscal Years 2000 through 2002 that totaled \$23,336 which were charged to an account called Travel. In October of 2001, accounting practices changed and there was no longer an account called Travel. Instead, charges for travel were broken out into three accounts: Mileage, Fuel, and Lodging. Travel expenditures for Fiscal Years 2000 through 2003 totaled \$39,252.

We identified travel expenditures of \$837 for the second Executive Director for trips to Boston (March 2003) and New York (August 2003). Both of these trips took place when the Cooperative was struggling financially. We asked the Cooperative for documentation of the purpose of the trips and documentation that the Board minutes showed that expenditures were approved. For the trip to Boston, it appeared that the Cooperative paid for two plane tickets, one for the Executive Director and one for an individual not employed by the Cooperative. Although the trips are listed among expenditures in the Board minutes and reports, the purpose of the trips was never identified. Cooperative officials said the trips were for a seafood show and to meet with a buyer, but no documentation of that could be provided.

Shrimp Festival and Advertising

In Fiscal Year 2004, the Cooperative sponsored a Shrimp Festival at the Du Quoin State fairgrounds. It was held in October 2003 after the fish processing plant had been formally shut down in September 2003. The total cost for the festival was \$12,091. Cooperative officials noted that they intended to generate income from the festival to cover its costs and that revenues of \$3,375 were obtained from donations, booth rentals and games. Although promotion of shrimp farming may be acceptable for an ongoing entity, it seems questionable for the Cooperative that was experiencing severe financial problems. As Exhibit 2-5 shows, advertising was the largest expenditure for the festival. According to an Agriculture official, the Department had planned to participate but decided not to have a booth at the Festival because officials did not want to send any type of message to the Cooperative that the Department might support future Cooperative activities.

In addition to the Shrimp Festival and its associated advertising, the Cooperative also had a contract with a radio group for advertising. It eventually paid the radio group \$15,790 for about 12 months, mostly in Fiscal Year 2003. The Cooperative's second Executive Director tried to cancel the contract in January 2003. Because

Exhibit 2-5 ILLINOIS FISH FARMERS COOPERATIVE QUESTIONABLE EXPENDITURES FOR A SHRIMP FESTIVAL – BY TYPE Fiscal Year 2004 sorted high to low	
Advertising	\$4,551
Miscellaneous	\$3,627
Entertainment	\$1,200
Games and Prizes	\$1,050
Supplies	\$995
Building	\$600
Mailing	<u>\$68</u>
Grand Total	<u>\$12,091</u>
Source: Illinois Fish Farmers Cooperative data summarized by OAG.	

the Cooperative fell behind in paying the radio advertising bills, there was a dispute over payments. Eventually \$2,359 of the debt was written off. For a struggling business that was doing other marketing efforts, this large amount of radio advertising may be excessive.

Employment Agreements

The Cooperative paid relocation expenses when the plant was opening and paid severance payments when the plant was closing that may have not been required under established employment agreements. The Cooperative had employment agreements with three members of its executive staff: the Executive Director, Plant Manager, and Technical Service Manager. The employment agreements outlined the benefits the executive staff were entitled to receive in the event of termination.

- Salary – In the event of termination, the employee shall be entitled to accrued salary up to but not including the effective date of termination.
- Sick days – At termination the employee shall be compensated for any accrued but unused sick days to a maximum of 30 days.
- Vacation days – At termination the employee shall be compensated for any accrued but unused vacation days.

The agreements contained an additional clause that stated that upon termination, the employee would not be entitled to any other benefit provided pursuant to the agreement. Other benefits in the agreements included vehicle usage, health insurance, and a contribution to a retirement benefit program.

The employment agreements also outlined the various circumstances where the agreements could be terminated.

- With cause – Employer may terminate the agreement with cause by giving the employee one day prior written notice. “With cause” was defined as a violation of a material term or provision of the agreement.
- Without cause – Employer or employee may terminate the agreement without cause by giving the other party 90 days prior written notice.
- In the event of discontinuation of business – The agreement would be terminated in the event of the determination to sell or otherwise dispose of substantially all of the assets of the employer, or to distribute the assets in liquidation, or to discontinue business in the aquaculture industry.

Relocation Expenses

The first three Cooperative executives each received \$5,000 relocation expenses although only one of the employment agreements called for this benefit. The Executive Director’s employment agreement called for this benefit but the agreements for the Plant Manager and

Technical Service Manager did not. Documentation in expenditure files for those without the provision showed accumulation of moving expenses incurred over a year-long period that totaled \$4,671 for the Plant Manager and \$4,369 for the Technical Service Manager. Each was actually paid \$5,000 shortly after his employment began and the difference was not repaid.

Severance Payouts

Executive staff received substantial severance packages either when they resigned or when the plant closed and they left. Severance payments for executive staff totaled \$97,966. Based on employment agreements with executive staff, the Cooperative may not have been obligated to make some of the payments that were part of the severance packages. These questionable payments totaled \$55,427. More details and the dollar amounts of the executive staff severance payments along with their annualized salaries are shown in Appendix H.

Retirement Benefit Payments

The employment agreements for the Executive Director, Plant Manager, and Technical Service Manager contained a section on other benefits which included a contribution to a retirement benefit program. The agreements stated the employer would contribute \$5,000 annually to a retirement benefit program established by the Cooperative. Payroll records show that a retirement program was not established but that the executive employees were each issued a separate check each year for their retirement benefits. The amount of the checks was “grossed up” so that, net of taxes, the net amount of the checks was \$5,000. It was then up to the employee to invest the money into a retirement plan.

After the plant was shut down, the second Executive Director and the Plant Manager were paid a separate check for their retirement benefits. The “grossed up” amounts of the checks were \$6,465 and \$6,129 respectively. However, the employment agreements stated that upon termination, the employee would not be entitled to any other benefit provided pursuant to the agreement. Based on this termination clause, these separate checks paid to executive staff as retirement benefits in November and December 2003 may be questionable.

Salary Payouts

The first severance package was done when the first Executive Director left in early September 2002 and received a severance package totaling \$35,680. As part of his severance package, the Executive Director continued to receive a bi-monthly paycheck through the end of December 2002. In addition, in January 2003, he received a payout of his remaining sick and vacation time and a retirement benefit payment.

The Cooperative’s Board of Directors agreed to accept the resignation of the first Executive Director with four months (120 days) salary and benefits. However, the employment agreement allowed termination without cause by giving 90 days prior written notice. Since the Board was not obligated to pay the additional 30 days, \$5,833 of the salary payout may be questionable.

In 2003, after the processing plant closed in September, the Cooperative paid several outgoing employees a substantial severance package. The second Executive Director, who was appointed in January 2003, received severance payouts totaling \$17,840. The Plant Manager received severance payouts totaling \$27,933. The Comptroller and Maintenance Manager received smaller severance payouts totaling \$6,923 and \$9,590 respectively. In each of these cases, the salary payout was issued through a series of paychecks as opposed to one paycheck for the gross amount. For example, on November 26, 2003, the Plant Manager received, in addition to his regular bi-monthly paycheck for \$2,458.33, two additional paychecks for the same amount. He also received three paychecks dated December 4, one dated December 11, and one dated December 15, 2003, all for the same amount as his regular paycheck.

A termination clause in the employment agreements stated that the agreement could be terminated in the event of the determination to discontinue business. Based on this termination clause and the processing plant’s closure in September 2003, the salary payouts paid to executive staff in November and December 2003 may be questionable.

Conclusion

If additional funding is provided for Aquaculture Development, the Department of Agriculture should assure that Aquaculture expenditures are appropriate. Furthermore, as discussed in Chapter One, the Cooperative operated until January 2001 without a formal business plan. The plan that was finally adopted had many weaknesses. A formal comprehensive business plan would not only have provided direction and established criteria for the operation of the Cooperative, but also would have established a framework against which the need or purpose of expenditures could have been evaluated.

AQUACULTURE EXPENDITURES	
RECOMMENDATION 1	<p style="text-align: center;"><i>The Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative should ensure that any future expenditures to support aquaculture are:</i></p> <ul style="list-style-type: none"> ○ <i>Adequately planned,</i> ○ <i>Appropriate for State purposes, and</i> ○ <i>Adequately documented.</i> <p><i>If there is not sufficient guidance on what is appropriate, Agriculture should develop rules or include more guidance in grant agreements.</i></p>
AGRICULTURE RESPONSE Cooperative response next page	IDOA agrees that if future expenditure for the aquaculture industry is made, IDOA should prior to distribution of any funds require a business plan that includes critical information. IDOA should develop administrative rules in accordance with statutory authority, if necessary.

<p>COOPERATIVE RESPONSE</p>	<p>The Illinois Fish Farmers Cooperative (IFFC) seeks to establish and maintain a working relation with the Illinois Department of Agriculture (Agriculture) in order to create a satisfactory plan that will guide operations of the cooperative and the advancement of aquaculture in Illinois. The IFFC can use some guidance from Agriculture on what is considered as appropriate in expenditure of state funds and what constitutes adequate documentation.</p>
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Chapter Three

CONFORMITY WITH APPLICABLE STATUTES

CHAPTER CONCLUSIONS

The Illinois Department of Agriculture did not develop administrative rules related to distributing Aquaculture Development Act funds as required by the Aquaculture Development Act (20 ILCS 215/5.5). Establishing adequate procedures and administrative rules could provide additional guidance and structure to the grant program as well as helping to ensure State resources are expended for the purpose intended and that adequate accountability exists.

Audits of the Illinois Fish Farmers Cooperative were performed each fiscal year through 2003 as required. The audits found no instances of noncompliance that would be required to be reported under applicable financial auditing standards.

The Cooperative generally kept adequate minutes, books, and records, but we did find examples where adequate records were not maintained. We also found documentation that showed that the Cooperative Board refused to make information in its records public as required by the Act.

The Department of Agriculture did not adequately monitor grants to the Cooperative. It did not consistently use statutory tools that were available including required budget review and required audits. In addition, Agriculture did not assign staff who consistently monitored the grant. It also did not assure that all grant agreement requirements were complied with.

STATUTORY REQUIREMENTS

The Aquaculture Development Act (20 ILCS 215) specified that the Illinois Department of Agriculture (Agriculture) would be the principal State agency for developing a program for assisting the State's aquaculture industry. The Act was revised effective August 13, 1999, to require the Department of Agriculture to make grants to an aquaculture cooperative. The complete Aquaculture Development Act is included as Appendix C of this report. In the following sections we discuss the requirements in the Act and Agriculture's and the Cooperative's conformity with those requirements.

Required Administrative Rules

Agriculture did not develop administrative rules related to distributing Aquaculture Development Act funds as required by statute. The Act states:

The grants for the Cooperative shall be distributed from the Illinois Aquaculture

Development Fund as provided by **rule** [*emphasis added*] (20 ILCS 215/5.5).

The compliance audit of the Department of Agriculture conducted by the Auditor General for Fiscal Year 2003 found that the Department had not written any formal procedures or rules over the Aquaculture grant program, instead relying only on the program framework established by the Act.

Establishing adequate procedures and administrative rules, as required by the Aquaculture Development Act, could provide additional guidance and structure to the grant program as well as helping to ensure State resources are expended for the purpose intended and that adequate accountability exists.

ADMINISTRATIVE RULES	
RECOMMENDATION 2	<i>The Illinois Department of Agriculture should establish adequate rules and procedures to administer and monitor grants to aquaculture cooperatives, as required by the Illinois Aquaculture Development Act.</i>
AGRICULTURE RESPONSE	The recommendation is moot as the Aquaculture Development Fund is abolished effective August 31, 2004, with any balance of the fund being transferred to the General Revenue Fund.
COOPERATIVE RESPONSE	The establishment of adequate rules and procedures to administer and monitor grants to the IFFC will promote effective management of funds and strengthen the working relation between the IFFC and Agriculture.

Required Budgets and Review

Although Agriculture received budgets from the Illinois Fish Farmers Cooperative for each of the five fiscal years, the Department could only document commenting on three of those budgets. The Aquaculture Development Act requires budgets to be submitted by the Cooperative and reviewed by the Department when grant funding is provided. Budget review is an important element of monitoring Aquaculture grants. Agriculture should assure that all grant funds, particularly those from the Illinois Aquaculture Development Fund, are adequately monitored. Exhibit 3-1 summarizes the type of comments and questions Agriculture raised about Cooperative budgets.

Fiscal Year 2000

For Fiscal Year 2000, Agriculture questioned various elements of the budget including the salary of the Executive Director. The Cooperative's budget proposed a \$90,000 annual salary with a \$31,500 benefit package for the Executive Director position. The Cooperative had contacted several employment recruiting firms and asked for salary requirement estimates. The annual salary estimates provided by three recruiting firms for the position ranged from \$65,000 to \$100,000. Agriculture noted that the projected salary for the Executive Director position

appeared to be in excess of typical salaries in the southern Illinois region and cited a Bureau of Labor Statistics survey which placed the mean salary of a private sector administrative manager at \$64,771 per year. The Department recommended finding a candidate closer to the mean regional salary. Subsequently, the Cooperative selected an Executive Director at an annual salary of \$65,000 with an increase of \$5,000 for each of the first two years.

Exhibit 3-1 AREAS OF AGRICULTURE REVIEW / COMMENT ON PROPOSED COOPERATIVE BUDGETS Fiscal Years 2000-2004					
Comment Topic	FY00	FY01	FY02 ^A	FY03 ^A	FY04
Executive Director / Staff Salaries	X				X
Hiring PR & Consulting Firm	X		N	N	
Financial Assistance Program	X		O	O	
Line Of Credit Exceeding Resources	X		N	N	
High School Grant Program	X	X	E	E	
Legal Services		X			X
Accounting Services		X	F	F	X
Marketing / Advertising Expenses		X	O	O	
Extension Program		X	R	R	
Technical Support		X			
Meals / Travel / Vehicle / Misc.		X	2	2	
Facility Rent		X	0	0	
Consulting / Contracting Fees			0	0	X
Sales Report			2	3	X
Website Design / Maintenance					X
Payments to Board Members					X
X Indicates that Agriculture commented on this topic. ^A Agriculture did not provide evidence of review and comment for Fiscal Year 2002 and Fiscal Year 2003 on proposed Cooperative budgets.					
Source: Cooperative and Illinois Department of Agriculture data summarized by OAG.					

Also related to the Executive Director, Agriculture commented on the Cooperative’s proposed hiring of a public relations and consulting firm, saying that these functions were duties of the Executive Director as detailed in the job description. The Department recommended that promotional and consulting functions be provided solely by the Executive Director and

Cooperative Board. Although there is no evidence that the budget was changed, no money was expended in the consulting line for Fiscal Year 2000.

Agriculture questioned budget items related to the Financial Assistance and the High School Grant Programs saying that additional review may be needed to ensure those programs comply with the statutory provisions and legislative intent of the Act. In reviewing audits, we found the Cooperative did not expend funds to implement the Financial Assistance program, but did do the High School Grant Program. For Fiscal Year 2000, the Cooperative budgeted \$50,000 for the High School Grant Program but spent \$90,420.

The Cooperative gave grants or equipment to 42 high schools for aquaculture teaching. Initially grants were given to buy equipment so that high schools could raise fish in a tank for educational purposes. Later, the Cooperative bought equipment and distributed it directly to the high schools. In Fiscal Year 2000, \$50,250 in cash grants were given and \$40,170 of equipment was purchased. Initial grants in Fiscal Year 2000 were from \$1,000 to \$2,500 per high school. In subsequent years some schools received an additional \$200 or \$250 in follow up money to continue. Total expenditures for Aquaculture teaching grants were \$90,420 in FY00, \$7,500 in FY01, \$1,200 in FY02, and \$750 in FY03. Appendix G lists those high schools.

Agriculture questioned the Cooperative seeking a line of credit from a private financial institution in the range of \$1-\$2 million. The Department cautioned that the funds from the State are subject to yearly appropriation and cannot be guaranteed and that it may be unwise to commit the Cooperative to financial obligations that it may not be able to fulfill. The Department recommended that should a line of credit be established, it be used for no more than can be repaid with existing resources. Although questions about the Fiscal Year 2000 budget were documented, no documentation was available that the Cooperative ever responded to the questions.

Fiscal Year 2001

Agriculture reviewed and provided a variety of comments on the Cooperative's Fiscal Year 2001 proposed budget as shown in Exhibit 3-1. The Department requested information about the cost of legal and accounting services. Legal services was budgeted at \$72,000, a 44% increase from the Fiscal Year 2000 budget. The Cooperative stated that the increase was based upon anticipated legal services required in connection with the start-up of the Cooperative and that, following the upcoming fiscal year, the Cooperative anticipated a reduction in legal fees. Agriculture also requested an explanation of accounting services which was budgeted at \$46,000 for Fiscal Year 2001. The Cooperative responded that the figure was based on required services including maintenance of records, grant audits, monthly expenditure reports, tax-related services, budget preparation and transition of accounting functions to in-house staff.

Fiscal Years 2002 and 2003

Agriculture did not provide evidence of comment or review of the Cooperative's proposed budgets for Fiscal Years 2002 and 2003. An Agriculture official stated that the

Department reviewed each year's budget to see if everything looked alright, but after the first two years, Agriculture did not submit comments because they would just be bringing up the same issues.

Fiscal Year 2004

Agriculture officials reviewed and commented on the proposed Fiscal Year 2004 budget submitted by the Cooperative. They requested information concerning salaries and benefits, consulting and contractual services, legal and accounting fees, personnel to be laid off, detailed sales reports with a listing of current and discontinued customers, website design and maintenance, and any payments made to Board members other than for fish purchases.

As a result of reviews, Agriculture amended the Fiscal Year 2004 grant agreement to stipulate that the Cooperative only use the grant funds to retire existing short-term debt. The Department stated that the Cooperative needed to take immediate action to cease all expenditures other than what was necessary to finish the business of the Cooperative and that no further debt be incurred.

Required Audits

Audits of the Illinois Fish Farmers Cooperative were performed each fiscal year through 2003 as required. The Aquaculture Development Act (20 ILCS 215) established the requirement that the financial books and records of the Cooperative shall be audited by a certified public accountant at least once each fiscal year and at other times as designated by the Director. One accounting firm performed each of the annual audits of the operating and capital grants, on a regulatory basis, in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards. The audit reports included consideration of the Cooperative's internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts and grants. The firm also performed an audit of the overall Cooperative including both grants and operating activities. Agriculture did not request any additional audits as allowed by statute.

The audits found no instances of noncompliance that would be required to be reported under the standards. There were no matters involving internal controls over financial reporting and its operations that would be considered material weaknesses. There was one instance of a reportable condition from the Fiscal Year 2000 audit which found that inadequate controls existed with respect to aquaculture grants which were awarded to Illinois high schools. This condition was later remedied by the Cooperative.

For each fiscal year, in the auditor's opinion, the financial statements presented fairly the financial position of the Cooperative and the results of its operations and cash flows in conformity with generally accepted accounting principles. As part of our audit work, we reviewed audit working papers for the audits performed of the Cooperative. An issue that we identified was that some audits were not completed timely as required in the grant agreement. An official of the firm noted that they had requested and received time extensions for those audits from the Department of Agriculture.

The Fiscal Year 2003 audit contained a going concern note that indicated that the Cooperative had incurred a net deficit from grant funds of \$784,671 through the end of the fiscal year. It goes on to say that these factors and uncertainty in continued grant funding from Agriculture create an uncertainty about the Cooperative's ability to continue as a going concern.

Required Minutes, Books, and Records

The Cooperative generally kept adequate minutes, books, and records, but we did find examples where adequate records were not maintained. We also found documentation that showed that the Cooperative Board refused to make information in its records public. The Aquaculture Development Act requires that "The Cooperative shall keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public" (20 ILCS 215/5.5).

We reviewed minutes of Board meetings which generally appeared complete. They included presentation and approval of Cooperative expenditures and other associated business decisions. We also reviewed summaries of Board meeting minutes which had been prepared in conjunction with annual audits of the Cooperative.

We did find one instance where the Cooperative could not locate a vendor file for an entity that acted as a broker, selling processed fish products for the Cooperative. A Cooperative official said that they had the file but could no longer locate it. In Fiscal Year 2003 the Cooperative paid this broker \$72,189. Although the official provided a copy of the contract and examples of bills of lading for deliveries, no invoices could be located. However, for Fiscal Year 2003 we were able to verify with the audit firm that it had tested expenditures for this broker and that there had been a file and no exceptions were noted.

As noted in Chapter Two, we did identify some travel expenditures where the purpose of the travel was not documented. The travel was for the second Executive Director for trips to New York and Boston.

We also noted two examples where records may not have been made available to the public. In Cooperative Board minutes dated April 18, 2000, the minutes reflect that the Aquaculture Advisory Board (created by the Cooperative bylaws) had requested copies of Cooperative Board meeting minutes. The Cooperative Board decided that the minutes would be circulated to Cooperative Board members only with a summary to the advisory board. Also, in letters from November and December 2001, limitations on public access to minutes and financial records are noted. Exhibit 3-2 shows where we noted some exceptions in record keeping or in providing public access.

Exhibit 3-2
STATUTORY REQUIREMENT COMPLIANCE
 Fiscal Years 2000-2004

Statutory Requirement	FY00	FY01	FY02	FY03	FY04
At the beginning of each fiscal period, the Cooperative shall prepare a budget plan for the next fiscal period, including the probable cost of all programs, projects, and contracts and shall submit the proposed budget ... (20 ILCS 215/5.5)	Cooperative prepared and submitted a budget plan	Cooperative prepared and submitted a budget plan	Cooperative prepared and submitted a budget plan	Cooperative prepared and submitted a budget plan	Cooperative prepared and submitted a budget plan
.... And shall submit the proposed budget to the Director for review and comment. (20 ILCS 215/5.5)	Department provided evidence of review and comment	Department provided evidence of review and comment	<i>Department did not provide evidence of review and comment</i>	<i>Department did not provide evidence of review and comment</i>	Department provided evidence of review and comment
The Cooperative shall keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public. (20 ILCS 215/5.5)	Cooperative kept minutes, books, and records <i>but limited public access</i>	Cooperative kept minutes, books, and records	Cooperative kept minutes, books, and records <i>but limited public access</i>	Cooperative <i>generally</i> kept minutes, books, and records	Cooperative <i>generally</i> kept minutes, books, and records
The financial books and records of the Cooperative shall be audited by a certified public accountant at least once each fiscal year... Copies of the audit shall be provided to all members of the Cooperative, to the Department, and to other requesting members of the aquaculture industry. (20 ILCS 215/5.5)	Required audit conducted by CPA firm and provided to Department	Required audit conducted by CPA firm and provided to Department	Required audit conducted by CPA firm and provided to Department	Required audit conducted by CPA firm and provided to Department	Not available at completion of audit fieldwork

Source: Cooperative and Agriculture data summarized by OAG.

MAKING RECORDS PUBLIC	
RECOMMENDATION 3	<i>The Department of Agriculture should assure that the Illinois Fish Farmers Cooperative, or other cooperatives receiving Aquaculture Development grants, keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and make this information public, as required by the Aquaculture Development Act.</i>
AGRICULTURE RESPONSE	The Aquaculture Development Act requires the Cooperative to keep minutes, books and records that reflect all actions of the Cooperative and to make this information public. IDOA agrees that the Cooperative should comply with all statutory mandates.
COOPERATIVE RESPONSE	Agriculture can establish clear rules and procedures that will guide the IFFC in keeping adequate minutes, books, and records that reflect all of the acts and transactions of the Cooperative. Agriculture can advise the IFFC on what constitutes proper channels and procedures for release of public information pertaining to the records of the cooperative.

MONITORING REQUIREMENTS

The Department of Agriculture did not adequately monitor grants to the Cooperative. It did not consistently use statutory tools that were available including required budget review and required audits. In addition, Agriculture did not assign staff who consistently monitored the grant. It also did not assure that all grant agreement requirements were complied with. Without considering over \$2 million in capital grants, Agriculture disbursed a total of \$4,931,000 in Aquaculture Development grants since Fiscal Year 2000 to the Illinois Fish Farmers Cooperative. The grants were made by the Department under the authority and direction of the Aquaculture Development Act (20 ILCS 215/5.5).

Both the Act and the grant agreements entered into by the Department and the Cooperative require the Department to review and comment on the Cooperative’s proposed annual budget prior to the disbursement of grant funds. The grant agreements stated that the full grant payment would be made after approval of the budget plan. The Department was unable to provide any documentation showing that it approved the budgets in Fiscal Years 2000 to 2003. Exhibit 3-2 summarizes required budget review and other statutory requirements and the level of compliance that we identified for each requirement for each fiscal year. In addition, the previously mentioned exceptions demonstrate the lack of monitoring.

In addition to the exceptions noted in the budget review process, the audits were presumably required so that Agriculture could review them and monitor expenditures of the Cooperative. A review of audits clearly shows that amounts budgeted often had little

relationship with actual expenditures. Significant variances both over and under budgeted amounts were common. For example, in Fiscal Year 2000, nothing was budgeted for equipment but \$254,107 was actually spent. No evidence of questions based on audits was provided by Agriculture.

A monitoring report which was required in the Fiscal Year 2004 grant agreement was not submitted by the Cooperative. In addition to limiting grant expenditures to retiring debt, the grant agreement for Fiscal Year 2004 also added a requirement for this monthly report detailing how the grant money was used. The report was never prepared by the Cooperative or received by Agriculture. Since use of grant funding was limited to retiring existing short-term debt, monitoring of the Cooperative using this report was important in ensuring that grant funds were used properly.

Agriculture did not consistently assign personnel to actively monitor the grant to ensure that required provisions were followed. According to Agriculture, when the grants were first established, the Director and the Fiscal Officer were in charge of monitoring the program. The Fiscal Officer received the budget and the Director provided comments to the Cooperative. The Bureau Chief of the Bureau of Marketing and Promotion was the main contact for the Cooperative outside of the Fiscal Officer and Director. Two other employees within the Bureau of Marketing and Promotion also had minimal contact with the Cooperative.

The Fiscal Officer and the Bureau Chief of Marketing and Promotion have both left the Department. In March 2003, another employee in the Bureau of Marketing and Promotion was designated as the main contact person for the Cooperative. However, he stated that his job was to help the Cooperative with marketing related issues. A new Fiscal Officer for Agriculture was not appointed until June 2004. The compliance audit of the Department of Agriculture conducted by the Auditor General for Fiscal Year 2003 also found that the Department did not adequately monitor grants to the Aquaculture Cooperative.

MONITORING AQUACULTURE GRANTS	
RECOMMENDATION 4	<i>The Illinois Department of Agriculture should assure that all grant funds, including those from the Illinois Aquaculture Development Fund, are adequately monitored. This should include reviewing and making changes based on audits, budgets, or other required elements.</i>
AGRICULTURE RESPONSE	IDOA agrees it should assure grant funds are adequately monitored.
COOPERATIVE RESPONSE	Monitoring grants can lead to a more effective management of how funds are expended, and can help strengthen the communication and working relation between the IFFC and Agriculture.

Aquaculture Development Fund

Public Act 93-839, passed by the General Assembly on July 24, 2004, and signed by the Governor on July 30, 2004, abolished the Illinois Aquaculture Development Fund effective August 31, 2004. References to the Illinois Aquaculture Development Fund remain in the statute, however, and may need to be amended to conform to the changes made by Public Act 93-839. For instance, Section 5.5(a) of the Aquaculture Development Act provides:

The Department of Agriculture shall make grants to an Aquaculture Cooperative from the Illinois Aquaculture Development Fund. On July 1, 1999 and on each July 1 thereafter through July 1, 2008, the Comptroller shall order transferred and the Treasurer shall transfer \$1,000,000 from the General Revenue Fund into the Illinois Aquaculture Development Fund (20 ILCS 215/5.5(a)).

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider eliminating references to the Aquaculture Development Fund, which no longer exists, from the Aquaculture Development Act.

APPENDICES

APPENDIX A
LAC Resolution Number 127

Legislative Audit Commission

RESOLUTION NO. 127

Presented by Representative Mautino

WHEREAS, the purpose of the Aquaculture Development Act (the "Act") is to establish a policy and program toward improving the science and husbandry of aquaculture in order to augment food supplies, promote agriculture diversification, expand employment opportunities, promote economic activity, increase native fish stocks, enhance commercial and recreational fishing and protect and better use the land and water resources of the State, as a means to expand the aquaculture industry and related economic activity;

WHEREAS, the Act is the responsibility of the Department of Agriculture and the Director of the Department of Agriculture;

WHEREAS, "aquaculture" means the "controlled propagation, growth and harvest of aquatic organisms, including but not limited to fish, shellfish, mollusks, crustaceans, algae and other aquatic plants, by an aquaculturist";

WHEREAS, "aquaculturist" means "individuals involved in producing, transporting or marketing aquatic products from privately owned waters for commercial purposes";

WHEREAS, "permitted aquaculture facility" means a facility used by aquaculturists to breed, hatch, propagate or raise aquatic life permitted by the Department of Natural Resources pursuant to Section 20-90 of the Fish and Aquatic Life Code" (15 ILCS 5/20-90);

WHEREAS, the Department of Agriculture makes grants to the Aquaculture Cooperative from the Illinois Aquaculture Development Fund which is funded by \$1 million transfers from the General Revenue Fund, to be used for the following purposes:

- To buy aquatic organisms from members of the Cooperative;
- To buy aquatic organism food in bulk quantities for resale to the members of the Cooperative;
- For transportation, hauling and delivery equipment;
- For employee salaries, building leases, and other administrative costs;
- To purchase equipment for use by the Cooperative members;
- And other related costs; therefore,

BE IT RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION that the Auditor General is directed to conduct a management audit of the Illinois Aquaculture Fund within the Department of Agriculture; and be it further

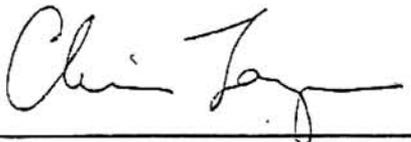
RESOLVED, that the audit include, but need not be limited to, the following determinations with regard to the Aquaculture Cooperative:

- The amount and purpose of expenditures and transfers from the Illinois Aquaculture Development Fund for Fiscal Years 2001, 2002, and 2003;
- Whether expenditures and transfers from the Illinois Aquaculture Development Fund made in Fiscal Years 2001, 2002 and 2003 appear to be in conformity with applicable rules and statutes;
- Whether all minutes, books, budgets and records required under the Act to be kept and made available to the public by the Aquaculture Cooperative have been maintained for Fiscal Years 2001, 2002 and 2003; and
- Whether the financial books and records of the Aquaculture Cooperative were audited by a certified public accountant at least once each fiscal year for 2001, 2002 and 2003, as required by statute.

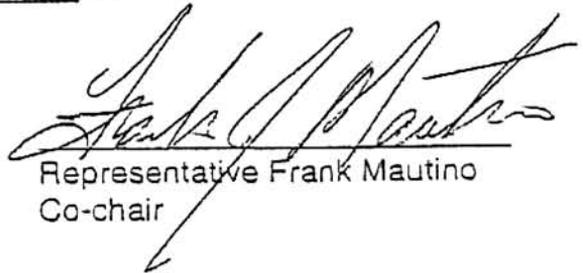
BE IT FURTHER RESOLVED, that the Illinois Department of Agriculture, and any other entity that may have relevant information pertaining to this audit cooperate fully and promptly with the Auditor General's Office in the conduct of this audit; and be it further

RESOLVED, that the Auditor General commence this audit as soon as possible and report his findings and recommendations upon completion to the Legislative Audit Commission, the Governor and the members of the General Assembly.

Adopted this _____ day of _____ 2004.



Senator Chris Lauzen
Co-chair



Representative Frank Mautino
Co-chair

APPENDIX B

Audit Sampling and Methodology

APPENDIX B

AUDIT SAMPLING AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

Fieldwork for this audit was conducted in May and June 2004. We interviewed representatives of the Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative. We reviewed documents at both agencies including grant agreements, correspondence, Cooperative Board minutes, expenditure files, and audits of the Cooperative. We reviewed internal controls at Agriculture related to statutory compliance and over the expenditure processes for grant funds expended by the Cooperative. We tested a sample of Cooperative expenditures from Fiscal Years 2000 through 2004 and analyzed electronic data provided by the Cooperative.

We reviewed the previous financial and compliance audits released by the Office of the Auditor General for the Illinois Department of Agriculture for issues relating to the Illinois Aquaculture Development Fund. We also reviewed audits of the Cooperative grant funds required by the statutes.

We assessed risk and management controls by reviewing Agriculture and Cooperative internal documents and processes. We reviewed management controls relating to the audit's objectives established in Legislative Audit Commission Resolution 127 (see Appendix A). This audit identified some weaknesses in those controls, which are included as findings in this report.

In conducting the audit, we reviewed applicable State and federal statutes and rules. We reviewed compliance with applicable laws as directed by the resolution. Any instances of non-compliance we identified are noted in this report.

TESTING AND ANALYTICAL PROCEDURES

We reviewed a sample of expenditure files from 50 vendors who had done significant business with the Cooperative. In one instance the Cooperative could not locate the vendor file but did provide some other documentation. For the majority of the cases, we reviewed the entire paper expenditure file which covered all expenditures for several fiscal years. For some cases we traced a specific expenditure back to the check to assure that the checks were issued and included appropriate signatures. The reviews were to determine if expenditures had proper approvals for payment, were charged to the correct detailed object code, were questionable, and appeared to meet one of the purposes outlined in the Aquaculture Development Act. Ten of the

expenditure files were for purchases of fish from fish farmers. The remaining files were other vendors.

We also reviewed personnel files for executive employees and some other processing plant employees. A total of ten personnel files were reviewed. The review determined start dates, salary/hourly pay information, qualifications, agreement with payroll records, evidence of performance reviews, and notation of any questionable information.

We also did analytical procedures on electronic financial data provided by the Cooperative. These analytical procedures include:

1. Reviewing that accounts payable had been paid down in Fiscal Year 2004 as required by the grant agreement.
2. Reviewing payroll records to determine if bonuses were paid and severance packages were given.
3. Reviewing expenditure records to examine account classifications and to identify examples for further review.

We reviewed audit working papers for the statutorily required audits of the Cooperative. We reviewed them at the audit firm's offices. The review was performed to allow us to rely on the numbers that are reported in those audits and the results that were reported. We reviewed the working papers and tested their sufficiency by using the Guide for Review of Financial Audit Engagements which is used as part of a peer review of an audit organization. The firm is also pre-qualified to do financial audits for the Office of the Auditor General. That pre-qualification requires firms to have gone through a peer review of their work. As a result we concluded that we could rely on the audit work and audit reports.

To test compliance with the Aquaculture Development Act we tested expenditures as noted above to assure that they were for intended purposes, reviewed required transfers, reviewed audit working papers, and reviewed minutes, books, and records of the Cooperative to assure that they reflected its acts and transactions.

APPENDIX C
Aquaculture Development Act
(20 ILCS 215)

APPENDIX C

AQUACULTURE DEVELOPMENT ACT

(20 ILCS 215)

(20 ILCS 215/1) (from Ch. 5, par. 2301)

Sec. 1. Short Title. This Act shall be known and may be cited as the "Aquaculture Development Act". (Source: P.A. 85-856.)

(20 ILCS 215/2) (from Ch. 5, par. 2302)

Sec. 2. Findings. The legislature finds and declares that it is in the interest of the people of this State that the practice of aquaculture be encouraged in order to augment food supplies, promote agriculture diversification, expand employment opportunities, promote economic activity, increase native fish stocks, enhance commercial and recreational fishing and protect and better use the land and water resources of the State.

The legislature finds that aquaculture shall be considered an agricultural pursuit as provided in the Internal Revenue Code, as amended, and for purposes of any laws that apply to or provide for the advancement, benefit or protection of the agriculture industry of the State. (Source: P.A. 85-856.)

(20 ILCS 215/3) (from Ch. 5, par. 2303)

Sec. 3. Purpose. The purpose of this Act is to establish a policy and program toward improving the science and husbandry of aquaculture as a means to expand the aquaculture industry and related economic activity in this State. (Source: P.A. 85-856.)

(20 ILCS 215/4) (from Ch. 5, par. 2304)

Sec. 4. Definitions. For the purposes of this Act:

(a) "Aquaculture" means the controlled propagation, growth and harvest of aquatic organisms, including but not limited to fish, shellfish, mollusks, crustaceans, algae and other aquatic plants, by an aquaculturist.

(b) "Aquaculturists" means individuals involved in producing, transporting or marketing aquatic products from privately owned waters for commercial purposes.

(c) "Privately owned waters" means waters confined within an artificial containment, such as man-made ponds, vats, tanks, raceways and any other indoor or outdoor facility constructed wholly within or on the enclosed land of an owner or lessor.

(d) "Director" means the Director of Agriculture.

(e) "Department" means the Department of Agriculture.

(f) "Aquatic products" means any aquatic plants and animals or their by-products that are produced, grown, managed, harvested and marketed on an annual, semi-annual, biennial or short term basis, in permitted aquaculture facilities.

(g) "Permitted aquaculture facility" means a facility used by aquaculturists to breed, hatch, propagate or raise aquatic life permitted by the Department of Natural Resources pursuant to Section 20-90 of the Fish and Aquatic Life Code. (Source: P.A. 89-445, eff. 2-7-96.)

(20 ILCS 215/5) (from Ch. 5, par. 2305)

Sec. 5. Program Development. The Department shall be the principal State agency for developing a program for assisting the State's aquaculture industry. The Department may consult with the Aquaculture Industry Advisory Committee in developing a program by which the Department shall:

(a) serve as a clearinghouse for information on aquaculture and provide assistance, information and data relating to the production and use of aquatic foods;

(b) develop informational packets and brochures on permit and license requirements and regulations governing the aquaculture industry;

(c) coordinate with other State agencies in order to promote the maximum flow of information and avoid unnecessary overlapping of regulations;

(d) assist marketing and promotion of aquatic products.

The transportation, possession or sale of aquatic products shall require that they be placed in labeled containers or accompanied by bills of lading or sale or similar documents identifying the name and address of the producer and quantity of the products.

The Director shall consult with the Director of Natural Resources to ensure that rules do not impair the enforcement provisions of the Fish and Aquatic Life Code protecting aquatic life in the native environment. Importation of non-indigenous species of aquatic life into the State for aquaculture must comply with rules and regulations of the Department of Natural Resources. (Source: P.A. 89-445, eff. 2-7-96.)

(20 ILCS 215/5.5)

(Section scheduled to be repealed on June 30, 2009)

Sec. 5.5. Aquaculture Cooperative.

(a) The Department of Agriculture shall make grants to an Aquaculture Cooperative from the Illinois Aquaculture Development Fund, a special fund created in the State Treasury. On July 1, 1999 and on each July 1 thereafter through July 1, 2008, the Comptroller shall order transferred and the Treasurer shall transfer \$1,000,000 from the General Revenue Fund into the Illinois Aquaculture Development Fund. The Aquaculture Cooperative shall consist of any individual or

entity of the aquaculture industry in this State that seeks membership pursuant to the Agricultural Cooperative Act. The grants for the Cooperative shall be distributed from the Illinois Aquaculture Development Fund as provided by rule. At the beginning of each fiscal period, the Cooperative shall prepare a budget plan for the next fiscal period, including the probable cost of all programs, projects, and contracts. The Cooperative shall submit the proposed budget to the Director for review and comment. The Director may recommend programs and activities considered appropriate for the Cooperative. The Cooperative shall keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public. The financial books and records of the Cooperative shall be audited by a certified public accountant at least once each fiscal year and at other times as designated by the Director. The expense of the audit shall be the responsibility of the Cooperative. Copies of the audit shall be provided to all members of the Cooperative, to the Department, and to other requesting members of the aquaculture industry.

(b) The grants to an Aquaculture Cooperative and the proceeds generated by the Cooperative may be used for the following purposes:

- (1) To buy aquatic organisms from members of the Cooperative.
- (2) To buy aquatic organism food in bulk quantities for resale to the members of the Cooperative.
- (3) For transportation, hauling, and delivery equipment.
- (4) For employee salaries, building leases, and other administrative costs.
- (5) To purchase equipment for use by the Cooperative members.
- (6) Any other related costs.

(c) The Department shall submit a report to the General Assembly before January 1, 2009 with a determination of whether the funding for the Aquaculture Cooperative should be extended beyond June 30, 2009. If the Department recommends an extension of the funding for the Cooperative, then the report shall detail whether the Cooperative funding should be increased, decreased, or eliminated. The report shall be submitted according to Section 5-140 of the Illinois Administrative Procedure Act. * **See note below relating to this section.**

(d) This Section is repealed on June 30, 2009. (Source: P.A. 91-530, eff. 8-13-99.)

(20 ILCS 215/6) (from Ch. 5, par. 2306)

Sec. 6. Advisory Committee. The Director may appoint an Aquaculture Industry Advisory Committee consisting of at least 12 members representing all sectors of the aquaculture industry. The committee shall assist the Director in developing and implementing a State aquaculture plan and rules necessary for the implementation of this Act, identifying the opportunities for regulatory relief, assisting the establishment of research and development priorities, assisting the

development of criteria to assure that publicly financed pilot programs are compatible with industry needs and identifying other opportunities for industrial development.

The term of membership shall be 3 years. Members may be reappointed. Members of the committee shall serve without compensation but may be reimbursed for actual expenses incurred in the performance of their duties. The committee shall meet at the call of the Director. (Source: P.A. 85-856.)

* Public Act 93-839 passed by the General Assembly on July 24, 2004, and signed by the Governor on July 30, 2004, made the following amendment to Section (5.5)(c):

(c) The Illinois Aquaculture Development Fund is abolished on August 31, 2004. Any balance remaining in the Fund on that date shall be transferred to the General Revenue Fund. The Department shall submit a report to the General Assembly before January 1, 2009 with a determination of whether the funding for the Aquaculture Cooperative should be extended beyond June 30, 2009. If the Department recommends an extension of the funding for the Cooperative, then the report shall detail whether the Cooperative funding should be increased, decreased, or eliminated. The report shall be submitted according to Section 5-140 of the Illinois Administrative Procedure Act.

APPENDIX D
Map of Illinois Fish Farmers
Cooperative Members

APPENDIX E
Illinois Licensed Aquaculturists and
Illinois Fish Farmers Cooperative
Members by County

Appendix E
ILLINOIS LICENSED AQUACULTURISTS AND
ILLINOIS FISH FARMERS COOPERATIVE (IFFC)
MEMBERS BY COUNTY FOR FY2003

County	IFFC Affiliate Members			County	IFFC Affiliate Members			County	IFFC Affiliate Members		
	Licensed Aquaculturists	IFFC Full Members	IFFC Full Members		Licensed Aquaculturists	IFFC Full Members	IFFC Full Members		Licensed Aquaculturists	IFFC Full Members	IFFC Full Members
Adams	2	0	0	Cumberland	0	0	0	Hardin	2	1	0
Alexander	1	1	0	De Kalb	1	0	0	Henderson	1	0	1
Bond	2	0	0	De Witt	0	0	0	Henry	0	0	0
Boone	1	0	0	Douglas	0	0	0	Iroquois	1	0	0
Brown	1	0	0	Du Page	1	0	0	Jackson	10	5	2
Bureau	0	0	0	Edgar	1	0	0	Jasper	2	0	0
Calhoun	2	0	0	Edwards	0	0	0	Jefferson	4	1	0
Carroll	2	0	0	Effingham	1	1	0	Jersey	0	0	1
Cass	0	0	0	Fayette	4	4	0	Jo Daviess	0	0	0
Champaign	3	0	0	Ford	1	0	0	Johnson	1	0	1
Christian	0	0	0	Franklin	5	1	2	Kane	2	0	1
Clark	0	0	0	Fulton	2	0	0	Kankakee	0	0	0
Clay	0	0	0	Gallatin	1	1	1	Kendall	2	0	0
Clinton	3	2	0	Greene	0	0	0	Knox	3	0	0
Coles	0	0	0	Grundy	0	0	0	La Salle	0	0	0
Cook	6	1	0	Hamilton	2	0	0	Lake	3	0	0
Crawford	4	2	0	Hancock	3	0	0	Lawrence	0	0	0

Licensed Aquaculturists - are licensed by the Department of Natural Resources.

Full Members - must be licensed aquaculturists or, if out-of-State, hold a non-resident fish dealer's license.

Affiliate Members - need not be licensed aquaculturists.

Source: Departments of Agriculture and Natural Resources Data Summarized by OAG.

Appendix E
ILLINOIS LICENSED AQUACULTURISTS AND
ILLINOIS FISH FARMERS COOPERATIVE (IFFC)
MEMBERS BY COUNTY FOR FY2003

Licensed Aquaculturists	IFFC Full Members	IFFC Affiliate Members	County	Licensed Aquaculturists	IFFC Full Members	IFFC Affiliate Members	County	Licensed Aquaculturists	IFFC Full Members	IFFC Affiliate Members	County
0	0	0	Lee	0	0	0	Morgan	0	0	0	Shelby
2	0	0	Livingston	1	0	0	Moultrie	6	5	2	St. Clair
0	0	0	Logan	2	0	0	Ogle	0	0	0	Stark
1	0	1	Macon	1	0	0	Peoria	1	0	0	Stephenson
2	1	0	Macoupin	3	2	0	Perry	3	0	0	Tazewell
2	0	1	Madison	0	0	0	Piatt	4	3	2	Union
2	1	2	Marion	0	0	0	Pike	1	0	0	Vermilion
0	0	0	Marshall	4	0	0	Pope	0	0	0	Wabash
0	0	0	Mason	2	1	0	Pulaski	2	1	0	Warren
3	0	0	Massac	1	0	0	Putnam	1	1	1	Washington
1	0	0	McDonough	2	0	0	Randolph	2	2	1	Wayne
1	0	0	McHenry	1	0	0	Richland	1	1	0	White
4	0	0	McLean	0	0	0	Rock Island	2	1	0	Whiteside
1	0	0	Menard	2	1	0	Saline	1	0	0	Will
0	0	0	Mercer	3	0	0	Sangamon	8	4	1	Williamson
1	1	0	Monroe	3	0	0	Schuyler	2	0	0	Winnebago
2	0	0	Montgomery	0	0	0	Scott	3	1	0	Woodford

Total IFFC Affiliate Members 20
Total IFFC Full Members 46
Total Licensed Aquaculturists 164

Note: There are also 4 out-of-State affiliate members
and 10 out-of-State full members

APPENDIX F
Illinois Fish Farmers Cooperative
Chronology of Events

Appendix F
ILLINOIS FISH FARMERS COOPERATIVE CHRONOLOGY OF EVENTS
1997-2004

Date	Event
August 1997	Initial meeting between project coordinators and State officials to discuss a fish processing center.
June 1999	Illinois Fish Farmers Cooperative (Cooperative) established.
August 1999	Public Act 91-530 establishes Illinois Aquaculture Development Fund for aquaculture cooperatives.
September 1999	Governor announces \$10,000,000 in grants through the Illinois Aquaculture Development Fund. Press release notes 150 jobs would be created when the fish processing plant was fully operational. Illinois Department of Agriculture (Agriculture) provides review and comment on Cooperative FY00 budget.
October 1999	Cooperative management committee selects Executive Director. Agriculture disburses \$1,000,000 operating grant to Cooperative.
December 1999	Cooperative nominates Advisory Board to assist in formulating policy and provide guidance. Cooperative selects Plant Manager for processing plant.
January 2000	Cooperative members elect initial Board of Directors, select Technical Service Manager.
April 2000	Cooperative estimates cost of capital expenditures for production facilities will be \$2,800,000.
June 2000	Agriculture disburses \$1,000,000 operating grant to Cooperative. Audit shows Cooperative has \$121,552 excess of revenues over expenditures for FY00. Audit dated January 26, 2001.
July 2000	Agriculture disburses \$1,220,000 capital grant to Cooperative through the city of Pinckneyville.
April 2001	Construction on processing plant begins.
May 2001	Office-plant facility deeded to Cooperative by city of Pinckneyville. Cooperative receives \$485,000 loan under Department of Commerce and Community Affairs Community Development Assistance Program (CDAP).

Appendix F
ILLINOIS FISH FARMERS COOPERATIVE CHRONOLOGY OF EVENTS
1997-2004

Date	Event
June 2001	Agriculture disburses \$800,000 capital grant to Cooperative. Audit shows Cooperative has \$266,364 excess of revenue over expenditures for FY01. Audit dated November 7, 2001.
August 2001	Agriculture disburses \$1,000,000 operating grant to Cooperative.
September 2001	Advisory Board member submits concerns to Cooperative regarding lack of information being provided.
October 2001	Construction on Cooperative processing plant completed, \$4.3 million processing plant opens. Newspaper reports that processing plant employs approximately 35 people, 15-20% catfish to be supplied by Illinois farmers.
December 2001	Cooperative holds grand opening ceremony for processing plant.
June 2002	Audit shows Cooperative has \$(676,572) deficit of revenues over expenditures for FY02. Audit dated November 26, 2002. Board approves buy-out of Sales Manager's contract. Executive Director meets with two local legislators and neighbors regarding odor complaints from wastewater lagoons.
September 2002	Agriculture disburses \$1,000,000 operating grant to Cooperative. Board approves 120-day severance package when 1 st Executive Director leaves. Current Board member named as interim Executive Director. Newspaper reports that Cooperative processing plant workers vote to unionize, processing plant employs approximately 52 people.
October 2002	Cooperative requests and receives one-year moratorium on processing plant loan repayment.
December 2002	Board names interim Executive Director as permanent Executive Director.
May 2003	Cooperative receives \$150,000 loan under USDA Intermediary Relending Program (IRP).
June 2003	Audit shows Cooperative has \$(496,015) deficit of revenues over expenditures for FY03. Audit dated November 13, 2003.
July 2003	Illinois Environmental Protection Agency issues list of environmental violations at

Appendix F
ILLINOIS FISH FARMERS COOPERATIVE CHRONOLOGY OF EVENTS
1997-2004

Date	Event
	Cooperative processing facility. U.S. International Trade Commission finds frozen catfish fillets from Vietnam were sold on U.S. market at less than fair values.
August 2003	Board approves hiring Technical Service biologist.
September 2003	Newspaper reports that Cooperative announces it will cease processing at plant, processing plant employs approximately 21 people.
October 2003	Agriculture restructures FY04 grant agreement with Cooperative to require payment of existing debt only. Cooperative sponsors Shrimp Festival. Cooperative Board approves severance package for 2 nd Executive Director.
November 2003	Agriculture disburses \$500,000 of operating grant to Cooperative. Newspaper reports Cooperative employs approximately 8 people.
December 2003	Cooperative owes \$388,000 to a bank from loan/lease agreement.
January 2004	Technical Service Manager assumes duties as Cooperative Chief Executive Officer. Agriculture disburses \$250,000 of operating grant to Cooperative.
April 2004	Cooperative owes city of Pinckneyville \$452,357 from CDAP and IRP loans. Agriculture disburses \$181,000 of operating grant to Cooperative.
June 2004	Cooperative processing plant facility is listed on eBay for 90 days, listing does not attract offer.

Source: Illinois Department of Agriculture, Illinois Fish Farmers Cooperative, and other information summarized by OAG.

APPENDIX G
Aquaculture Teaching Grant Schools

Appendix G
AQUACULTURE TEACHING GRANT SCHOOLS

High School	2000	2001	2002	2003	Total
Altamont High School	\$1,000	\$250			\$1,250
Anna-Jonesboro Community High School	\$1,500	\$250	\$200	\$250	\$2,200
Bond County Community High School		*			
Bushnell-Prairie City High School	\$1,000	\$250			\$1,250
Carlyle High School	\$1,000	\$250			\$1,250
Cuba High School	\$2,500	\$250	\$200		\$2,950
East Richland High School	\$2,300	\$250	\$200		\$2,750
Eldorado High School	\$2,250	\$250			\$2,500
Flora High School		*			
Galva High School	\$2,500	\$250			\$2,750
Hamilton County High School	\$1,800	\$250			\$2,050
Heritage High School	\$2,000	\$250			\$2,250
Highland High School	\$1,000	\$250	\$200		\$1,450
Hillsboro High School	\$2,000	\$250			\$2,250
Hutsonville High School	\$1,000	\$250	\$200		\$1,450
John Marshall Metro High School	\$1,000	\$250			\$1,250
Marissa High School	\$1,500	\$250			\$1,750
Metamora Township High School		*			
Midland High School	\$1,000	\$250			\$1,250
Midwest Central High School	\$2,500	\$250			\$2,750
Milford High School		*			
Morrisonville High School	\$2,500	\$250			\$2,750
Mt. Vernon Township High School	\$1,500	\$250			\$1,750
Mt. Zion High School		*			

Appendix G
AQUACULTURE TEACHING GRANT SCHOOLS

High School	2000	2001	2002	2003	Total
Newark Community High School		*			
North Clay Community High School	\$1,500	\$250			\$1,750
Pecatonica High School		*		\$250	\$250
Putnam County High School		*			
Rossville-Alvin High School	\$2,500	\$250			\$2,750
Rowva High School	\$2,500	\$250			\$2,750
Sesser-Valier High School	\$1,500	\$250	\$200	\$250	\$2,200
Shelbyville High School		*			
Shiloh High School	\$2,000	\$250			\$2,250
Sullivan High School	\$1,600	\$250			\$1,850
Sycamore High School	\$1,000	\$250			\$1,250
Union High School		*			
V.I.T. High School		*			
Valmeyer High School	\$1,300	\$250			\$1,550
Waltonville High School	\$1,000	\$250			\$1,250
West Frankfort High School	\$1,000	\$250			\$1,250
West Pike High School		*			
Westmer High School	\$2,500	\$250			\$2,750
Purchase Equipment	\$40,170				\$40,170
Grand Total	\$90,420	\$7,500	\$1,200	\$750	\$99,870

* Twelve schools received aquaculture systems valued at \$3,150 that were purchased by the Cooperative and the equipment was then distributed.

Source: Cooperative Data Summarized by OAG.

APPENDIX H
Illinois Fish Farmers Cooperative
Executive Severance Packages

Appendix H
ILLINOIS FISH FARMERS COOPERATIVE EXECUTIVE SEVERANCE PACKAGES

First Executive Director							
Title	Start Date	End Date	Annualized Salary	Payment Date	Type of Payment	Amount of Payment	Amount Questionable
Executive Director – 1 st	November 1999	September 3, 2002	\$70,000 FY03	09/13/02	Salary	\$ 2,109.07	
<i>Questionable because it is more than the 3 month severance pay provided for in contract.</i>				09/30/02	Salary	2,916.67	
				10/14/02	Salary	2,916.67	
				10/31/02	Salary	2,916.67	
				11/15/02	Salary	2,916.67	
				11/29/02	Salary	2,916.67	
				12/13/02	Salary	2,916.67	\$ 2,109.07
				12/31/02	Salary	2,916.67	2,916.67
				01/15/03	Salary	807.60	807.60
				01/15/03	Sick	5,276.32	
				01/15/03	Vacation	942.20	
				01/15/03	Retirement	6,128.77	
						\$ 35,680.65	\$ 5,833.34

Second Executive Director							
Title	Start Date	End Date	Annualized Salary	Payment Date	Type of Payment	Amount of Payment	Amount Questionable
Executive Director – 2 nd	January 2003	November 26, 2003	\$65,000 FY04	11/26/03	Salary	\$ 2,708.33	\$ 2,708.33
<i>Questionable because fish processing plant had ceased operations in September 2003 and contract requires only accrued sick and vacation to be paid out when operations cease.</i>				11/26/03	Salary	2,708.33	2,708.33
				11/26/03	Salary	2,708.33	2,708.33
				11/26/03	Sick	1,500.00	
				11/26/03	Vacation	1,750.00	
				11/26/03	Retirement	6,464.65	6,464.65
						\$ 17,839.64	\$ 14,589.64

Appendix H
ILLINOIS FISH FARMERS COOPERATIVE EXECUTIVE SEVERANCE PACKAGES

Plant Manager							
Title	Start Date	End Date	Annualized Salary	Payment Date	Type of Payment	Amount of Payment	Amount Questionable
Plant Manager	January 2000	November 26, 2003	\$59,000 FY04	11/26/03	Salary	\$ 2,458.33	\$ 2,458.33
<i>Questionable because fish processing plant had ceased operations in September 2003 and contract requires only accrued sick and vacation to be paid out when operations cease.</i>				11/26/03	Salary	2,458.33	2,458.33
				12/04/03	Salary	2,458.33	2,458.33
				12/04/03	Salary	2,458.33	2,458.33
				12/04/03	Salary	2,458.33	2,458.33
				12/11/03	Salary	2,458.33	2,458.33
				12/11/03	Retirement	6,128.77	6,128.77
				12/11/03	Sick	1,134.80	
				12/11/03	Vacation	1,134.80	
				12/11/03	Sick	2,326.34	
				12/15/03	Salary	2,458.33	2,458.33
						\$ 27,933.02	\$ 23,337.08

Comptroller							
Title	Start Date	End Date	Annualized Salary	Payment Date	Type of Payment	Amount of Payment	Amount Questionable
Comptroller	February 2003	November 26, 2003	\$40,000 FY04	11/26/03	Salary	\$ 1,666.67	\$ 1,666.67
<i>Questionable because fish processing plant had ceased operations in September 2003 and there was no contract requiring severance.</i>				11/26/03	Salary	1,666.67	1,666.67
				11/26/03	Salary	1,666.67	1,666.67
				11/26/03	Vacation	1,538.40	
				11/26/03	Sick	153.84	
				11/26/03	Vacation	230.76	
						\$ 6,923.01	\$ 5,000.01

Appendix H
ILLINOIS FISH FARMERS COOPERATIVE EXECUTIVE SEVERANCE PACKAGES

Maintenance Manager							
Title	Start Date	End Date	Annualized Salary	Payment Date	Type of Payment	Amount of Payment	Amount Questionable
Maintenance Manager	May 2001	October 31, 2003	\$40,000 FY04	10/31/03	Sick	\$ 769.20	
<i>Questionable because fish processing plant had ceased operations in September 2003 and there was no contract requiring severance.</i>				10/31/03	Vacation	769.20	
				10/31/03	Sick	1,384.56	
				11/06/03	Salary	1,666.67	\$ 1,666.67
				11/06/03	Salary	1,666.67	1,666.67
				11/06/03	Salary	1,666.67	1,666.67
				11/06/03	Salary	1,666.67	1,666.67
						\$9,589.64	\$ 6,666.68

**Grand Total \$ 97,965.96 \$
55,426.75**

Note: The amount questionable column indicates instances where it is questionable whether the Cooperative was obligated to make the payments. The reasons that the payments were questioned are noted next to each executive's payments.

Source: OAG analysis of Illinois Fish Farmers Cooperative payroll files.

APPENDIX I

Agency Responses

Note: This Appendix contains the complete written responses of the Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative.



Office of the Director

State Fairgrounds • P.O. Box 19281 • Springfield, IL 62794-9281 • 217/782-2172 • TDD 217/524-6858 • Fax 217/785-4505

August 30, 2004

Mr. Ed Whittrock
Office of the Auditor General
740 Ash Street
Springfield, IL 62703

RECEIVED
AUDITOR GENERAL
SPFLD.
2004 SEP -1 P 1:16

Re: Management Audit Illinois Aquaculture Development Fund

Dear Mr. Whittrock:

Thank you for meeting with me on August 23, 2004. Please consider the following the Illinois Department of Agriculture's (IDOA) written responses to the management audit of the Illinois Aquaculture Development Fund.

Recommendation 1: The Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative shall ensure that any future expenditures to support aquaculture are: adequately planned, appropriate for State purposes, and adequately documented. If there is not sufficient guidance on what is appropriate, Agriculture should develop rules or include more guidance in grant agreements.

IDOA Response 1: IDOA agrees that if future expenditure for the aquaculture industry is made, IDOA should prior to distribution of any funds require a business plan that includes critical information. IDOA should develop administrative rules in accordance with statutory authority, if necessary.

Recommendation 2: The Illinois Department of Agriculture should establish adequate rules and procedures to administer and monitor grants to aquaculture cooperatives, as required by the Illinois Aquaculture Development Act.

IDOA Response 2: The recommendation is moot as the Aquaculture Development Fund is abolished effective August 31, 2004, with any balance of the fund being transferred to the General Revenue Fund.

Recommendation 3: The Department of Agriculture should assure that the Illinois Fish Farmers Cooperative, or other cooperatives receiving Aquaculture Development grants, keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public, as required by the Aquaculture Development Act.

IDOA Response 3: The Aquaculture Development Act requires the Cooperative to keep minutes, books and records that reflect all actions of the Cooperative and to make this information public. IDOA agrees that the Cooperative should comply with all statutory mandates.

Recommendation 4: The Illinois Department of Agriculture should assure that all grant funds, including those from the Illinois Aquaculture Development Fund, are adequately monitored. This should include reviewing and making changes based on audits, budgets, and other required elements.

IDOA Response 4: IDOA agrees it should assure grant funds are adequately monitored.

If there are any questions, please contact me at (217) 785-4507.

Sincerely,

ILLINOIS DEPARTMENT OF AGRICULTURE



Margaret L. van Dijk
General Counsel

MvD/ct

cc: Chron file

Illinois Fish Farmers Co-op

P.O. Box 235, Pinckneyville, IL 62274
Phone/ FAX (618)357-3474

August 30, 2004

Mr. Ed Wittrock, Audit Mgr.
Office of the Auditor General
Iles Park Plaza
740 E. Ash
Springfield, IL 62703-3154

RECEIVED
AUDITOR GENERAL
SPFLD.
2004 SEP - 1 P 12: 19

Dear Mr. Wittrock:

I appreciate you making the changes we discussed to the Auditor General's report. We do have a few items that we would like to mention regarding the level of impact that the Illinois Fish Farmers Cooperative (IFFC) has had on Illinois aquaculture.

During the period between fiscal years 2002 and 2004 the aquaculture industry in Illinois experienced significant growth. Membership data indicate the number of members in Illinois increased by nearly 21% to 52 producers; acreage increased by 108% on average for all species of fish and prawns produced; and farm value increased from \$145,000 to \$688,000 for the three major species sold for human consumption (*i.e.* hybrid striped bass, channel catfish and freshwater prawn).

In addition to expansion in number of members and production, the IFFC has received an overall high rating in service by its members and prospective growers among the public whom received assistance from co-op staff. According to an independent satisfaction survey conducted by the Office of Economic and Regional Development at SIU, 92% of respondents indicated they were provided with a satisfactory level of service; and 85% believe that aquaculture can help maintain traditional Illinois family farms. For more information, please refer to the copy of the actual survey provided to you.

We appreciate the opportunity you provided last week to meet with you and go over the draft report. Should you need additional information to finalize your report, do not hesitate to contact me.

Sincerely,

CHRIS BREDEN

Chris Breden, CEO

Illinois Fish Farmers Co-op

P.O. Box 235, Pinckneyville, IL 62274
Phone/ FAX (618)357-3474

RESPONSES

Recommendations made by the *Office of the Auditor General* in their *Draft Report* dated August 5, 2004 In *Management Audit of the Illinois Aquaculture Development Fund* Pursuant to *Legislative Audit Commission Resolution Number 127*

Recommendation 1:

The Illinois Department of Agriculture and the Illinois Fish Farmers Cooperative should ensure that any future expenditure to support aquaculture is:

- *Adequately planned,*
- *Appropriate for State purposes, and*
- *Adequately documented.*

Response:

The Illinois Fish Farmers Cooperative (IFFC) seeks to establish and maintain a working relation with the Illinois Department of Agriculture (Agriculture) in order to create a satisfactory plan that will guide operations of the cooperative and the advancement of aquaculture in Illinois. The IFFC can use some guidance from Agriculture on what is considered as appropriate in expenditure of state funds and what constitutes adequate documentation.

Recommendation 2:

The Illinois Department of Agriculture should establish adequate rules and procedures to administer and monitor grants to aquaculture cooperatives, as required by the Illinois Aquaculture Development Act.

Response:

The establishment of adequate rules and procedures to administer and monitor grants to the IFFC will promote effective management of funds and strengthen the working relation between the IFFC and Agriculture.

Recommendation 3:

The Department of Agriculture should assure that the Illinois Fish Farmers Cooperative, or other cooperatives receiving Aquaculture Development grants, keep minutes, books, and records that clearly reflect all of the acts and transactions of the Cooperative and shall make this information public, as required by the Aquaculture Development Act.

Response:

Agriculture can establish clear rules and procedures that will guide the IFFC in keeping adequate minutes, books, and records that reflect all of the acts and transactions of the Cooperative. Agriculture can advise the IFFC on what constitutes proper channels and procedures for release of public information pertaining to the records of the cooperative.

Recommendation 4:

The Department of Agriculture should assure that all grant funds, including those from the Illinois Aquaculture Development Fund, are adequately monitored. This should include reviewing and making changes based on audits, budgets, or other required elements.

Response:

Monitoring grants can lead to a more effective management of how funds are expended, and can also help strengthen the communication and working relation between the IFFC and Agriculture.