



DuPage County
Assessment of Boards and Commissions

Final Report
May 30, 2012

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Executive Summary

Overview/Project Approach

At the request of DuPage County, Crowe Horwath LLP (Crowe) conducted an assessment of 24 agencies whose governing body Board Members are appointed by the County Board Chairman and except for one entity, the DuPage Election Commission, are confirmed by the DuPage County Board. These agencies were listed in the County's ordinance OCB-001-11, "County Appointed Bodies to Provide Management Information" and were required to provide specific information to the County, at its request. The agencies included as part of the assessment, are as follows:

- DuPage Airport Authority
- DuPage Board of Health
- Century Hill Street Lighting District
- DuPage Election Commission
- DuPage Emergency Telephone System Board
- Fair & Exposition Authority
- Fire Protection Districts
 - Lisle-Woodridge FPD
 - Warrenville FPD
 - West Chicago FPD
 - Fairview FPD
 - Glenbard FPD
 - Naperville FPD
 - North Westmont FPD
 - Roselle FPD
 - Yorkfield FPD
- DuPage Housing Authority
- Sanitary Districts
 - Downers Grove Sanitary District
 - Highland Hills Sanitary District
 - Salt Creek Sanitary District
 - Wheaton Sanitary District
- Sheriff's Merit Commission
- DuPage Water Commission
- West Chicago Mosquito Abatement District
- Wheaton Mosquito Abatement District

The purpose of the study was to obtain a better understanding of each of the agencies' functions, assess the long-term financial sustainability of the agencies, assess the transparency, accountability and strength of each entity's internal controls, determine opportunities to improve operational efficiency, streamline organizational structures, and reduce costs. In order to complete the assessment, Crowe conducted one-on-one or focus-group style interviews with representatives from the agencies and reviewed specific financial, procedural, and policy documentation provided by agency officials and representatives from DuPage County.

Two elements of the assessment were the financial analysis and procurement & ethics policies reviews, which are found in the individual agency reports:

Financial Analysis

The Financial Analysis sections of each agency report presents a number of high-level observations based upon the review of audited financial statements and supplementary information provided by each agency. This review was limited to the information acquired via Ordinance and interviews. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data. Financial reviews were conducted to assess high level financial sustainability and no audit opinions have been rendered on any comments provided.

Procurement & Ethics Policies Review

To assess the transparency and accountability of each agency, our analysis reviewed each agency's procurement and ethics policies. These policies were then compared to the County's procurement and ethics policies, which was considered as best practice guidance. In certain instances, we selected and reviewed a subset of agency contract files. Our review of selected contracts centered on compliance with the agency's stated procurement policy.

Project Approach

The project was completed in four phases during the following months indicated below:

- Phase 1 – Initiate (October 2011)
 - Identified stakeholders, agency leaders, and data requests necessary for assessment
- Phase 2 – Assess (November 2011 – May 2012)
 - Reviewed submitted documentation and requested additional data as necessary
 - Conducted interviews and focus groups with stakeholders and agency leaders
 - Reviewed financial documentation
 - Confirmed findings with stakeholders and agency leaders
- Phase 3 - Recommend Improvements (January 2012 – May 2012)
- Phase 4 - Finalize and Present (March 2012 – May 2012)

The project approach is illustrated below:



Agency Summary

The summaries below provide brief highlights of each of the agencies studied. The detailed individual reports for each agency follow this Executive Summary.

DuPage Airport Authority

The DuPage Airport Authority (DAA) is responsible for three distinct units of business – the DuPage Flight Center, the Prairie Landing Golf Course, and the DuPage Business Center. The DAA has maintained a stable operation and has employed best practices to manage its operations. It also plays an important role in aviation for the region as well as the local economy. While the economic times have had an impact on the airports operations, the Authority’s Management has proactively addressed fluctuations in operating revenues by managing expenses, which will help it sustain operations. Further, the Authority has made a significant effort to reduce its property tax levy over the years. We made the following recommendations:

- Improve budgeting and reporting procedures
- Improve capital program monitoring
- Continue to monitor the golf course operations to maintain compliance with FAA regulations and to look for methods to address the sustainability of the operations

DuPage Board of Health

The DuPage County Board of Health ensures that all state laws and county ordinances regarding the preservation of health are upheld, executes any necessary health inspections and investigations in DuPage County, and is responsible for making health information readily available to the citizens of DuPage County. The Board of Health and Health Department have remained financially stable by exploring efficiency and cost-saving opportunities within the Department. The Department has managed

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to propose a balanced budget and decreased the percentage of tax dollars to programs despite an 18% increase in personnel. Although financially stable, we recommend that the Board of Health and Health Department:

- Continue to monitor the Federal and State financial situations as the Health Department's financial results are dependent upon the funding provided by outside sources, primarily the State of Illinois
- Complete its process improvement initiative and share practices and process improvement plans with other county agencies

Century Hill Street Lighting District

The Century Hill Street Lighting District levies a tax to provide for the maintenance of street lights in the Century Hill subdivision. While the District is very small, with only \$15,884 in revenues in 2010, there is some potential financial risk given the age of the District's infrastructure. We recommend that the District work with its taxpayers to determine if the District will be better served through an Intergovernmental Agreement with Lisle Township, potential annexation, or maintaining the District as a separate entity.

The County does not have the power to force the District into any particular action; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

DuPage Election Commission

The DuPage Election Commission serves a vital role in the federal, state and local election process for the County. The Commission oversees elections, trains and certifies election judges, redistricts precincts, and registers voters. While the Commission's role within the County centers around elections, there appears to be an overlap of administrative roles with County-wide administration, including: Procurement, Finance, Human Resources and Information Technology functions. In addition, the Commission failed to follow its own Procurement Policy in 12 of 13 contracts that we reviewed. Deficiencies consisted of incomplete file documentation, lack of competitive bidding, failure to disclose subcontractors, and lack of disclosure in the contract of the nature and of goods or services to be provided. We recommend the Commission:

- Explore opportunities for shared or contracted services with the County and the Commission to provide cost efficiencies to the taxpayers of the County
- Improve its procurement policy, document decisions made through contract file maintenance and implement practices to provide a more open procurement process
- Review all current contracts for compliance with the procurement policy and best practices.

DuPage Emergency Telephone System Board

The DuPage Emergency Telephone System Board (ETSB) was established by referendum in 1989 to oversee the Enhanced 9-1-1 systems for citizens of the County of DuPage and portions of Cook, Kane and Will counties, excluding the Village of Burr Ridge and City of Naperville. Over the course of the last several years, the ETSB has made good strides in improving the integration and leverage between the Board and DuPage County. The review of a sample of procurement files supports improvement in this area, although there continues to be opportunities to improve on both efficiencies and compliance. Financially, the ETSB is funded primarily by telephone surcharges. As a result of trends in telephone usage, this funding is critically dependent on a surcharge per wireless network connection for all Illinois residents. The Wireless Emergency Telephone System Act that authorizes the imposition of the surcharge fee, is scheduled to sunset on April 1, 2013. If this occurs, ETSB will no longer be financially viable as it is currently operating. We recommend the following:

- Support legislation that would continue the wireless surcharge via The Wireless Emergency Telephone System Act beyond the sunset date

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- Create a parallel, formal contingency plan which details the equipment and operational transitions required if funding is eliminated
- Complete and fully implement the new dispatch network, STARCOM21

Fair and Exposition Authority

The DuPage Fair and Exposition Authority (Authority) receives funds from the State of Illinois and distributes the funds according to Illinois Department of Agriculture regulations. The Fair and Exposition Authority serves as a funding arm of the Fair Association (Association), a separate non-profit entity, whose responsibility is planning and executing the five-day County Fair. The Fair and Exposition Authority has been coming under increased financial strain. As the State of Illinois continues to undergo fiscal stress resulting in less funding to local governments, the Authority's financial strain is likely to continue. Given continued decrease in funding and declining fair attendance over the past 10 years, there is some concern over the long-term viability of the County Fair. We recommend that the County:

- Consider the long-term viability of the fair
- Work with the Authority to find a new fairground location
- Consider the possibility of sharing a fair location
- Investigate potential legislative change to allow Illinois Department of Agriculture funding to be distributed directly to the County, who can act as the pass through agent for funding the Association and providing Association oversight

Fire Protection Districts

Nine Fire Protection Districts were reviewed for this study; three operating districts and six paper districts. Operating districts provide fire protection services directly, whereas paper districts levy a tax and contract with a municipality for fire protection services. Based on the completed financial analysis, we have concluded that the three operating districts (Lisle-Woodridge, Warrenville, West Chicago) along with the Naperville paper district are financially stable. While the Yorkfield paper district is stable, it is currently spending down a reserve created when all of its operating assets were sold off. North Westmont is financially stable, but there are transparency questions on how fire protection costs are determined. It appears the district spends most of its funds on equipment turned over to the Village of Westmont, and not a prorated share of operating expenses. The Fairview and Glenbard paper districts both show signs of financial instability and there is concern for the future sustainability of each. Finally, Roselle FPD did not fully comply with County Ordinance OCB-001-11. As such, we did not receive financial information from the district and we were limited to information we could obtain from the State of Illinois Comptroller's website. Additional compliance matters related to compensation of trustees was also noted for the Roselle FPD. We have the following specific financial recommendations:

- Develop a Financial Viability Plan for Fairview, Glenbard, and Roselle FPDs to better understand deficit spending and future sustainability.
- Review budgeting and expenditure projection methodology for North Westmont and Yorkfield FPD.
- Comply with 70 ILCS 705/6 for compensation of board members for Roselle FPD. Based upon our limited document review, we believe that the board members are compensated too much given its status as a paper district with no direct full-time firefighting staff. If noncompliance is confirmed, the District may have overpaid each Trustee \$2,000 per year for a total of \$6,000 per year since 1991.
- Conduct a study of the cost of services to determine the appropriate charges for services for all paper FPDs. Future contracts with the service providers should be based on actual costs of service.
- Complete a long-term financial analysis for all operational FPDs. The Districts rely heavily on property taxes which presents at least two factors for further consideration, including: 1) property taxes are received in two installments annually, therefore, significant cash flow problems can occur outside the property tax receipt cycle and 2) the Property Tax Extension Limitation Law

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(PTELL) or “tax caps” limit the annual growth of the District’s primary revenue source to the consumer price index.

- Explore sharing administrative costs with a neighboring municipality for paper districts.
- Engage in further collaboration of sharing personnel, equipment, and administration to help streamline costs between districts and municipalities for both paper and operating districts.
- Collaborate further with the County in investigating options for alternative service models. Options for the paper districts to consider include the following:
 - Facilitate annexation of the District by a neighboring service provider or municipality.
 - Facilitate Discussions: Help educate & facilitate discussions among residents of unincorporated areas to explore potential annexation, its advantages/disadvantages, and other alternatives.
 - Consider cost saving measures to have a municipality act as fiscal and administrative agents for a district. Activities including finance, legal, publications, insurance and supplies could potentially be provided by a municipality at a lower cost.
 - Consider dissolving the District and implementing a fee for service model for the paper districts. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.
- Include a trustee from each of the districts as a representative on the Fire Service Stakeholders Group moving forward. The Fire Service Stakeholders Committee has been working with its member municipalities and representatives of elected fire districts, to identify and eliminate the barriers to the consolidation of fire services. To our knowledge, representatives of the paper districts appointed by the Chairman and confirmed by the County Board have not been part of the discussions to date. For the paper FPD’s under study, the County can facilitate meetings between the Fire Service Stakeholders Committee and the FPDs which the Chairman appoints Board members in order to begin to involve these Districts in the discussions.

DuPage Housing Authority

The Authority administers public programs and funds in accordance with the U.S. Department of Housing and Urban Development (HUD) regulations and guidelines. It provides assistance in obtaining decent, safe, sanitary and affordable housing in DuPage County. Management of the Authority is working closely with the Housing Authority Board and with HUD to resolve audit issues identified in 2011 and seek recovery of previous overpayments made by the Authority. The Authority has completed hearings in accordance with State Statute and HUD guidelines and is working on addressing internal control weaknesses and compliance matters noted in the June 30, 2011, audit that was issued on March 15, 2012.

The Authority is also working with the County and State purchasing agents to gain cost savings from joint purchasing and to improve internal controls surrounding purchasing. The Authority has updated and enhanced most of its administrative policies and has provided training opportunities for its staff.

The Authority has made significant improvements in addressing issues noted with audit findings and recommendations. The Authority will need to continue working with HUD to resolve open matters and it is possible that the audit issues will take some time to resolve. Therefore, it is important for the Authority and the County to communicate regularly regarding the status of finding resolution and the repayment of funds previously misappropriated by the Authority.

Sanitary Districts

Four Sanitary Districts were reviewed for this study; two that provide both collection and treatment services, one that provides collection services only, and one that provides treatment services only. Based on our analysis we have concluded that the Downers Grove and Wheaton Sanitary Districts have maintained stable operations and have employed best practices to manage operations and capital programs. The Salt Creek Sanitary District has also been considered a stable organization; however, it is showing indications of decline. The erosion of the District’s net assets over the past four years due to deficit spending, the age of the facility, the sensitivity of significant required rate increases and changes in

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key personnel call into question the ability of the District to remain a sustainable organization. In addition, we believe there are significant concerns that will need to be addressed related to the sustainability of the Highland Hills Sanitary District. Continued erosion of the District's net assets due to deficit spending, the age of the infrastructure and lack of response from Management of the District are all matters that are indicators of a condition requiring further attention. We recommend that the Districts:

- Perform further analysis to better understand deficit spending and future sustainability of the Salt Creek and Highland Hills Sanitary Districts. The question regarding sustainability may require the attention of the County to address potential obligations and liabilities.
- Study the viability of the Salt Creek and the Highland Hills Sanitary Districts as stand-alone entities in order to determine if its customers and the County will be more efficiently served by consolidating or sharing services with another entity. The study should also consider the financial sustainability of each District for the long-term. If consolidation should be pursued, it should be noted that the County does not have the authority to force the District into consolidation. The County may appoint new leadership to the Board of Trustees and rely on their action, or the County may need to seek legislative remedy.
- Continue to monitor the rate structure and study the cost of services to determine the appropriate rate structure for fixed costs. A cost of service study may also assist each entity to better align costs between fixed and variable costs.
- Collaborate further with the County on ways that responsibilities related to collection and treatment can be revised to provide for efficiencies and provide the services as required by the regulatory bodies.
- Study how the County and other sanitary districts may gain efficiencies by sharing personnel and equipment.
- Fully comply with County Ordinance OCB-001-11 by providing information as requested. The Highland Hills Sanitary District did not comply with several requests for further information related to the study we conducted.
- Study reducing the reliance on property taxes and possibly eliminate the property tax levy and provide for such revenues through user fees. Two of the Sanitary Districts included within our report, Downers Grove and Highland Hills, levy property taxes each year. As a governmental utility, a best practice will be to provide its services without the use of property taxes. Such a change will provide more equitable charges to the users of the utility system.

Finally, to address many of the recommendations described above, we recommend that the County explore the creation of a coalition of sanitary districts to consider the potential consolidation of smaller wastewater treatment plants, transfer of collection-only jurisdiction responsibilities to treatment provider, other options for shared services, and sharing of best practices. This effort should include all districts and municipalities providing sanitary services, the majority of which were not reviewed in this project.

DuPage Sheriff's Merit Commission

The Sheriff's Merit Commission plays an important, independent role in the hiring, advancement and discipline of DuPage Sheriff Personnel. While the independent decision making of the Commission is critical, there is an overlap of the Human Resource activities performed by both the Commission and the County. This overlap includes the processing of job applications, the certifying of applicants as qualified, and the establishing of minimum requirements for job postings. As such, there is an opportunity for better coordination between the two Human Resources functions. While there would be no cost savings in this process, increased coordination and leverage of the County's Human Resource department will lead to a higher level of consistency and allow both entities to determine and follow best practices in the hiring process. This coordination, combined with improvements in transparency and accountability such as the public posting of full meeting schedules and additions to the Commission's ethics policies, will help the Commission perform its important role more efficiently.

DuPage Water Commission

The DuPage Water Commission was created to finance, construct, acquire, and deliver Lake Michigan water to DuPage County. The Commission has taken measures to improve its financial condition after significant matters were noted and an investigation was conducted by a special counsel. The Water Commission has addressed all of the recommendations noted in the special counsel's report and has implemented or has plans to implement the recommendations. In addition, the Water Commission is addressing provisions of Public Act 096-1389 which imposed new financial requirements.

Financial analysis of the rate structure for the Water Commission has been prepared to set future water rates for its customers. Water Commission Management followed good practices in the development of the analysis and the presentation of it to the customer communities. The financial analysis provides the Water Commission with a sustainable financial plan as a public water utility to guide it in future budget and financial matters.

The Management of the Water Commission has evaluated and is implementing efficiency measures to reduce costs and is implementing stronger internal control practices. In addition, the Water Commission has improved transparency by improving its website's content and improved accountability practices by posting more information on its website.

The requirements of the Act and the measures recommended by the Special Counsel's Report have been significant undertakings for the Water Commission. Such changes do not occur without significant effort and time to address the measures. Therefore, progress on all of the measures will not be immediate and will continue to require much diligence in the future.

West Chicago and Wheaton Mosquito Abatement Districts

West Chicago and Wheaton Mosquito Abatement Districts are two of 45 districts, municipalities, or townships performing mosquito abatement in DuPage County, and they are two of 36 that contract with a single service provider to perform mosquito abatement services. There is a potential for duplication of service; therefore, we recommend the County convene a group of mosquito abatement representatives and investigate negotiating a regional contract with the service provider across all districts, municipalities and townships to facilitate potential cost savings. We also recommend the County and these two districts investigate and consider dissolving the districts and moving the function to the County Health Department or another entity.

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DuPage Airport Authority
Background

The DuPage Airport Authority (DAA) is responsible for three distinct units of business – the DuPage Flight Center, the Prairie Landing Golf Course, and the DuPage Business Center. All three units are located near each other in West Chicago, Illinois and comprise 2,800 acres. Based upon its employee roster, the DAA has an estimated 63 full time employees between all of its units of business.¹ The DuPage Airport Authority's mission includes the following:

- Provide general aviation facilities and service to the suburban Chicago area, including corporate aviation service, recreational aviation, charter service, local commuter service and air cargo while fostering aviation related business on the field
- To develop and lease or sell surplus vacant land in a manner compatible with airport uses in order to generate significant long-term income which, along with increased aviation revenues, will stimulate the local economy
- Provide for the creation of jobs
- Bring outside revenues to local businesses
- Increase tax revenues for local communities
- Reduce the airport's reliance upon property tax levies until the airport operates profitably without using revenue from taxpayers.²

The total direct and indirect employment impact of the Airport and related activities on the DuPage County economy is estimated to be 963 jobs. The total direct and indirect income impact on the County is estimated to be \$45.5 million, or approximately \$47,000 per job. The total volume of economic activity supported is estimated at \$117 million.³

Enabling Statute

70 ILCS 5 Airport Authorities Act: Allows for creation of airport authorities having powers necessary or desirable for the establishment and continued maintenance and operation of safe, adequate and necessary public airports and public airport facilities within the State of Illinois.⁴

Board Composition

The board consists of nine trustees that are compensated \$10,000 per year and serve five-year terms.⁵ Per provided Board materials, Board and Committee meetings are scheduled for every other month on the first Wednesday of the month.⁶

Financial Summary

The DAA's operating revenues are derived from aircraft storage; fuel sales; leases, commissions, fees; and golf course operations. Non-operating revenues come from property tax, federal and state grants, and investment income.⁷

The Airport Authority has levied property taxes that have been designated for capital expenditures by the Authority's Board.⁸ The levy is a corporate levy based on the Tax Extension Worksheet provided by the DuPage County Clerk. According to the Authority's annual financial report, the property tax levy has been "set aside" to fund a portion of the Authority's five-year capital improvement plan. In 1994, the DAA levied a property tax of \$19 million.⁹ Over the years, the DAA has endeavored to diversify its revenue sources and reduce its reliance on the property tax by deriving more income from hanger leases, fuel sales, the business park, and other airport related activities. In 2010, the Authority levied a tax for \$6,476,024, and then abated the tax by \$500,000, such that \$5,976,024 was levied at a rate of 0.0158%. This levy applies to all taxable property within DuPage County.

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For the fiscal year ending December 31, 2012, the Authority's total operating budget for the airport and the golf course combined was \$18,839,633. At a high level, budgeted operating expenses break down as follows:¹⁰

- Airport Operations \$5,872,969
- Flight Center Fuel Operations \$10,580,353
- Prairie Landing Golf Course \$2,386,311

The Authority also budgeted for non-operating expenses including general expenses of:

- \$685,182 for property tax paid (for DAA and the golf course operations) and for a net Center Point Advance
- \$17,783,690 for the Capital Development Program.

Therefore, the total operating and non-operating budgets total \$37,308,505. The total expected revenues for fiscal year 2012 totaled \$26,035,662, resulting in a budgeted decrease in cash balances of \$11,272,843. \$7,422,500 of the expected cash balance decrease relates to spending of Capital Reserve cash and the remainder relates to expected spending of operating cash balances.

Historical Financial Information

The Authority's fiscal year end is December 31st. The latest available audited financial statements available were for the year ended December 31, 2010. The fiscal year 2011 audited financial statements are expected to be issued by June 30, 2012. Summarized financial statement information for the airport authority, golf course and capital improvement program for fiscal years 2008 through 2010, is provided below:

DuPage Airport Authority – Operations, Flight Center and Golf Course

Table 1

DuPage Airport Authority - Primary Government
Statement of Net Assets Fiscal Years 2008 - 2010

	2008	2009	2010
Assets			
Current Assets	\$ 26,060,834	\$ 28,424,986	\$ 32,299,047
Capital Assets, Net	149,858,979	145,309,515	151,754,055
Other Assets	7,914,946	8,129,708	624,098
Total Assets	183,834,759	181,864,209	184,677,200
Liabilities			
Current Liabilities	8,963,178	9,060,944	9,134,050
Long-term Liabilities	6,554,049	6,274,350	5,781,280
Total Liabilities	15,517,227	15,335,294	14,915,330
Net Assets			
Invested in Capital Assets	156,180,409	152,033,146	151,754,055
Restricted-Future Capital Purposes	7,534,082	9,853,490	15,999,653
Unrestricted	4,603,041	4,642,279	2,008,162
Total Net Assets	\$ 168,317,532	\$ 166,528,915	\$ 169,761,870

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Historical Financial Information (Continued)

DuPage Airport Authority – Operations, Flight Center and Golf Course

Table 2

DuPage Airport Authority - Primary Government
Statement of Revenues, Expenses and Changes in Net Assets Fiscal Years 2008 - 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues	\$ 22,213,050	\$ 16,484,263	\$ 17,587,901
Expenses	<u>20,783,019</u>	<u>15,554,424</u>	<u>16,842,735</u>
Operating Income before Depreciation and Amortization	1,430,031	929,839	745,166
Depreciation and Amortization	<u>9,099,975</u>	<u>8,956,111</u>	<u>9,050,813</u>
Operating Loss	<u>(7,669,944)</u>	<u>(8,026,272)</u>	<u>(8,305,647)</u>
Nonoperating Revenues (Expenses)	<u>7,689,450</u>	<u>7,220,557</u>	<u>7,676,867</u>
Net Income (Loss) before Special Item	19,506	(805,715)	(628,780)
Special Item-Dissolution of Technology Park	<u>-</u>	<u>(982,902)</u>	<u>3,861,735</u>
Net Income (Loss)	19,506	(1,788,617)	3,232,955
Net Assets, Beginning	<u>168,298,026</u>	<u>168,317,532</u>	<u>166,528,915</u>
Net Assets, Ending	<u>\$ 168,317,532</u>	<u>\$ 166,528,915</u>	<u>\$ 169,761,870</u>

Summarized financial statement information for the airport authority, golf course and capital improvement program for fiscal years 2008 through 2010, has been presented above. The information that follows presents the financial information for the Golf Course operations and the Capital Improvement Program. Observations and Recommendations are provided after the tables.

DuPage Airport Authority – Golf Course Operations

The Authority also operates a Golf Course and the financial information is contained in the summary financial information displayed in the previous table. The specific financial results for the Authority's Golf Course can be found below. The latest available audited financial statements available were for the year ended December 31, 2010. The fiscal year 2011 audited financial statements are expected to be issued by June 30, 2012; however, the preliminary unaudited statement of revenue, expenses and changes in net assets is presented in the schedule. Summarized financial statement information for the golf course for fiscal years 2008 through 2011, is provided below:

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Table 3

DuPage Airport Authority - Golf Course Operations
Statement of Net Assets Fiscal Years 2008 - 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Assets:			
Current Assets	127,830	171,376	162,582
Capital Assets	932,849	869,705	708,814
Total Assets	<u>932,849</u>	<u>869,705</u>	<u>708,814</u>
Liabilities	<u>447,725</u>	<u>678,954</u>	<u>821,316</u>
Net Assets:			
Invested in Capital Assets, net of Related Debt	932,849	869,705	708,814
Unrestricted	(319,895)	(507,578)	(658,734)
Total Net Assets	<u>\$ 612,954</u>	<u>\$ 362,127</u>	<u>\$ 50,080</u>

Table 4

DuPage Airport Authority - Golf Course Operations
Statement of Revenues, Expenses and Changes in Net Assets Fiscal Years 2008 - 2011

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues	\$ 3,058,010	\$ 2,632,957	\$ 2,621,580	\$ 2,382,668
Expenses				
Direct Costs	2,056,068	1,908,038	1,886,431	1,799,319
General and Administrative	865,767	756,873	836,941	832,411
Total Expenses	<u>2,921,835</u>	<u>2,664,911</u>	<u>2,723,372</u>	<u>2,631,730</u>
Operating Income (Loss) before Depreciation and Amortization	136,175	(31,954)	(101,792)	(249,062)
Depreciation and Amortization	221,829	230,702	215,869	200,365
Operating Income (Loss)	<u>(85,654)</u>	<u>(262,656)</u>	<u>(317,661)</u>	<u>(449,427)</u>
Nonoperating Revenues (Expenses)	9,787	11,829	5,614	4,295
Net Income (Loss)	<u>(75,867)</u>	<u>(250,827)</u>	<u>(312,047)</u>	<u>(445,132)</u>
Net Assets, Beginning of Year	688,821	612,954	362,127	50,080
Net Assets, End of Year	<u>\$ 612,954</u>	<u>\$ 362,127</u>	<u>\$ 50,080</u>	<u>\$ (395,052)</u>

The sources for the above financial schedules are the 2008 through 2010 audited annual financial reports and the December 2011 Financial Pre-Audit Commissioners report (Unaudited).

DuPage Airport Authority – Capital Improvement Program

Financial information on the Authority's Capital Improvement program can be found below. The latest audited financial statements available were for the year ended December 31, 2010. The fiscal year 2011 audited financial statements are expected to be issued by June 30, 2012; however, information from the Authority's preliminary Statement of Cash Flows was utilized to complete the schedules. Two schedules are being presented. The first schedule provides a roll forward of the capital reserve account for the Authority

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from fiscal year 2008 through fiscal year 2011. The 2008 through 2010 detail for capital asset additions was provided by the Authority's external auditors. The second schedule provides a prospective look at the capital reserve program for fiscal years 2012 through 2015. The DAA Capital Cash Flow document provided by the Authority was used to create this prospective schedule. Property tax revenues for the fiscal years 2012 through 2015 were estimated based on the property tax collections of the Authority for 2010 and 2011.

Table 5

DuPage Airport Authority - Capital Improvement Program Analysis
Fiscal Years 2008 - 2011

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Beginning Designated Capital Net Assets	\$ 957,271	\$ 7,534,081	\$ 9,853,486	\$ 15,999,649
Cash received from Property Taxes	6,591,680	6,586,101	6,102,741	6,120,008
Federal and State Grants	651,284	347,358	1,623,714	-
Transfer from Technology Park	-	-	12,588,818	-
Transfer from Operating Cash	1,944,591	1,037,865	2,536,657	-
Total revenues for designated capital projects	<u>9,187,555</u>	<u>7,971,324</u>	<u>22,851,930</u>	<u>6,120,008</u>
Capital Spending:				
Flight Center Equipment	12,045	204,909	47,282	-
Golf Course - Equipment and Land Improvements	176,703	167,559	65,078	-
Airport Operations:				
Office Furniture	50,047	11,819	66,570	7,500
Machinery and Equipment	653,100	744,704	568,440	338,463
Vehicles	24,340	111,000	67,995	57,991
Hangar Renovation for Red Hangar	-	585,428	-	-
Other Building Improvements	323,382	606,445	1,941,187	1,689,553
Pavement Repairs	-	736,346	-	550,357
Runways, Ramps, & Parking	829,020	22,739	793,657	1,125,682
Land Improvements	79,598	115,336	13,159,025	204,121
Net Increase (Decrease) in CIP	<u>586,527</u>	<u>1,998,558</u>	<u>33,926</u>	<u>-</u>
Total Capital Additions	2,734,762	5,304,843	16,743,160	3,973,667
Reconciling items:				
(Increase) Decrease in Payables	(117,106)	141,172	(24,290)	-
Increase (Decrease) in Prepaids	(6,911)	205,904	(13,103)	-
Net increase (decrease) in Designated Capital Net Assets	6,576,810	2,319,405	6,146,163	2,146,341
Ending Designated Capital Net Assets	<u>\$ 7,534,081</u>	<u>\$ 9,853,486</u>	<u>\$ 15,999,649</u>	<u>\$ 18,145,990</u>

The sources for the above financial schedule are the 2008 through 2010 audited annual financial reports, the December 2011 Financial Pre-Audit Commissioners report (Unaudited) and the detail for the capital asset additions was provided by the Authority's external auditors for fiscal years 2008 - 2010 and by Authority management for fiscal year 2011.

The Capital Improvement Program analysis for 2008-2011 shows that at January 1, 2008, the Authority had a capital reserve balance of \$957,271 and as of December 31, 2010 the balance grew to \$15,999,649. Based on preliminary 2011 information provided by the Authority, the balance in the capital reserve is expected to be about \$18 million. The balance of \$18 million will be considered for further analysis as a carry forward balance for future capital improvements.

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Table 6

DuPage Airport Authority - Capital Improvement Program Analysis
Fiscal Years 2012 - 2015

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Designated Capital Net Assets	\$ 18,145,990	\$ 16,823,490	\$ 22,923,490	\$ 29,023,490
Cash received from Property Taxes*	6,100,000	6,100,000	6,100,000	6,100,000
Capital Additions:				
Paid from Capital Reserve Funds:				
Acquire Appropriate Aviation Easements	1,191,000	-	-	-
Extension to Runway 2R/20L	6,231,500	-	-	-
SE Quadrant Infrastructure Improvements	-	-	-	1,540,000
Total Capital Reserve Projects	<u>7,422,500</u>	<u>-</u>	<u>-</u>	<u>1,540,000</u>
Paid from DAA Operating Funds:	-	-	-	-
Golf Building Improvements	317,000	50,000	15,000	125,000
Golf Equipment	280,500	176,500	381,000	215,700
Golf Course Improvements	452,000	427,000	519,000	122,000
Aviation Equipment	602,500	771,000	188,000	840,000
Pavement Rehabilitation Projects	300,000	300,000	200,000	200,000
Extension to Runway 2R/20L	1,319,216	-	-	-
Other Aviation Field Projects	1,092,974	268,300	328,300	268,300
Flight Center Curtain Wall Sealing	270,000	270,000	270,000	270,000
New Fire Station Building	1,200,000	-	-	-
Facility Upgrades Flight Center	1,000,000	1,000,000	-	-
Other Aviation Building Projects	1,470,000	637,000	499,000	366,000
Paid from Grant Funds:				
Rehab Runway 10/28	2,100,000	-	-	-
Upgrade perimeter fence	1,000,000	-	-	-
Construct West and North end perimeter roads phase 1	820,000	-	-	-
Total Capital Projects from Other Sources	<u>12,224,190</u>	<u>3,899,800</u>	<u>2,400,300</u>	<u>2,407,000</u>
Net increase (decrease) in Designated Capital Net Assets	(1,322,500)	6,100,000	6,100,000	4,560,000
Ending Designated Capital Net Assets	<u>\$ 16,823,490</u>	<u>\$ 22,923,490</u>	<u>\$ 29,023,490</u>	<u>\$ 33,583,490</u>

* Amounts estimated based on the Authority's tax levy and \$500,000 tax abatement in 2010 and 2011.

The source for the above financial schedule is the DAA Capital Cash Flow document provided by the Authority.

The Capital Improvement Program Analysis for the years 2012 through 2015 was prepared based on a cash flow schedule provided by the Authority. The analysis above shows a beginning Capital Reserve Balance of \$18,145,990 which has been estimated based on preliminary information provided by the Authority. Based on the cash flows anticipated, the balance in the Capital Reserve is expected to grow to \$33,583,490 as of December 31, 2015. The analysis assumes about \$6 million in property taxes will be levied and collected annually and that \$3,920,000 from grants will be received. The Authority has estimated that \$29,893,790 in capital spending will occur during this timeframe with the largest project being for runway improvements totaling about \$19.5 million. It should be noted that it is essential to maintain this runway as it is the DAA's most important component of their airfield. According to the DAA, failing to rehab the runway would dramatically impact their airfield capacity and may violate their grant assurances.¹¹

Tables 7 and 8 below illustrate the projects outlined in the Authority's master plan for the period of 2008 and 2012 compared to the actual revenues and capital spending of the Authority for fiscal year 2008 through 2011 and budgeted for fiscal year 2012. Table 7 presents that the Authority intended to expend \$46,587,000

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on capital projects per the Master Plan and had actual and budgeted capital spending for almost \$46,000,000 for that period. However, though total capital spending was in line with the master plan's total dollar amount, only just over \$10,000,000 of the \$46,000,000 was spent, or will be spent, on specific projects identified in the Master Plan. The remaining \$36,000,000 was spent, or will be spent, on capital projects not included in the 2009 Master Plan. Table 8 reflects that the Authority was expecting to receive over \$23,000,000 in Federal and State funding for the period of 2008 through 2012. However, they only received approximately \$2.6 million, requiring the Authority to utilize property tax funding for the majority of their capital projects.

Table 7

DuPage Airport Authority - Capital Improvement Program Analysis
Schedule of Actual Expenses for 2008 - 2011 and Budgeted Expenses for 2012 Compared to the Master Plan
Fiscal Years 2008 - 2012

Funding Type/Project Description	Mater Plan Estimated Cost*	Actual Expenses 2008 - 2011	Budget 2012	Total Expenses 2008 - 2011 and 2012 Budget	Remaining
Total Project - All Funding Sources					
Runway 20L 1,343-foot Extension	3,250,000	498,989	1,319,216	1,818,205	\$ 1,431,795
Runway 2R-20L Parallel Taxiway (East)	7,422,000	-	6,231,500	6,231,500	1,190,500
Prairie Path Relocation / Golf Course Modification	918,000	-	-	-	918,000
Runway 10 250-foot Extension and Taxiways	1,625,000	122,206	-	122,206	1,502,794
Runway 2L-20R Widen and Shoulders	7,201,000	188,767	-	188,767	7,012,233
New Conventional Hangars – 97,900 SF	17,405,000	-	-	-	16,819,572
Aviation Easement Acquisition	2,901,000	54,515	1,596,374	1,650,889	1,250,111
Tower Rd/Kautz Rd Intersection Reconfiguration	50,000	-	-	-	50,000
Southeast Drainage Project	4,113,000	-	-	-	4,113,000
Southeast Utility Extensions	745,000	-	-	-	745,000
Service Road - Southeast	457,000	-	-	-	457,000
Environmental Assessments - Airfield Projects	500,000	165,691	-	165,691	334,309
New Fire Station Building	-	8,794	1,200,000	1,208,794	(1,208,794)
Facility Upgrades Flight Center	-	1,190,961	2,959,000	4,149,961	(4,149,961)
Building Addition to the New Fire Station	-	-	495,000	495,000	(495,000)
Hangar Renovation for Red Hangar	-	585,428	-	-	-
Other Building Improvements	-	3,625,048	1,245,000	4,870,048	(4,870,048)
Other Airport Operations Machinery and Equipment	-	2,304,707	602,500	2,907,207	(2,907,207)
Pavement Repairs	-	1,286,703	-	1,286,703	(1,286,703)
Other Airport Operations Field Projects	-	4,525,632	1,085,600	5,611,232	(5,611,232)
Other Land Improvements	-	13,392,389	-	13,392,389	(13,392,389)
Office Furniture	-	135,936	-	135,936	(135,936)
Vehicles	-	261,326	-	261,326	(261,326)
Other golf course projects	-	409,340	1,049,500	1,458,840	(1,458,840)
Total Projects - All Funding Sources	\$ 46,587,000	\$ 28,756,432	\$ 17,783,690	\$ 45,954,694	\$ 46,878
Master Plan Capital Spending and Budgeted Spending				\$ 10,177,258	
Non-Master Plan Capital Spending and budget Spending				35,777,436	

Table 8

DuPage Airport Authority - Capital Improvement Program Analysis
Schedule of Actual Revenues for 2008 - 2011 and Budgeted Revenues for 2012 Compared to the Master Plan
Fiscal Years 2008 - 2012

	Master Plan	Actual 2008 - 2011	Budget 2012	Difference
Revenues:				
Federal and State [^]	\$ 23,378,000	\$ 2,622,356	\$ -	\$ (20,755,644)
Local Funds*	23,209,000	25,342,025	6,100,000	8,233,025
Total Revenues	\$ 46,587,000	\$ 27,964,381	\$ 6,100,000	\$ (12,522,619)

* Comprised of annual property tax levy which is designated for capital projects.

[^] Federal and State grants are not budgeted by the Authority

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Table 9 represents a roll-forward of the designated capital net assets of the Authority for the periods of 2013 through 2017 and 2018 through 2027, taking into account expected revenues and the capital projects that are outlined in the Authority's 2009 Master Plan for these periods. The table illustrates that the Authority will require \$52,154,824 of funds from sources other than property taxes (Federal and State grants, proceeds from land sales or other operating reserves) to complete the projects outlined in the Master Plan through 2017. However, the Authority could postpone these projects until after 2017 in order to capture revenues that are expected to be received from property taxes for the 10-year period of 2018 through 2027 and reduce the amount needed from other revenue sources to \$32,855,824 in order to complete the projects outlined in the Master Plan through 2027. The largest projects scheduled between 2013 and 2027 are runway improvement projects in the amount of \$22.5 million and new conventional hangers in the amount of \$41.1 million.

Table 9

DuPage Airport Authority - Capital Improvement Program Analysis
Fiscal Years 2013 - 2027

	Master Plan	
	<u>2013 - 2017</u>	<u>2018 - 2027</u>
Beginning Designated Capital Net Assets	\$ 16,823,490	\$ (52,154,824)
Expected Revenues:		
Property Taxes*	30,500,000	61,000,000
Total Expected Revenues	<u>30,500,000</u>	<u>61,000,000</u>
Master Plan Projects:		
2008 - 2012 Projects not completed that were Carried Over to 2013 - 2017	35,824,314	-
2013 - 2027 Projects:		
Runway 2L-20R Strengthen and Taxiway Improvements	22,577,000	-
Tower Road T-Hangar Rehabilitation	525,000	-
Tower Road T-Hangar Replacement	6,852,000	-
Tower Road Conventional Hangar Rehabilitation	1,608,000	3,370,000
New Conventional Hangars	19,029,000	22,052,000
Conventional Hangar Apron and Taxiway	4,468,000	3,122,000
T-Hangar Relocation - 30 units	3,845,000	-
SE Apron Construction	1,512,000	-
SE Access Roadways and Parking	360,000	-
Tower Road Cul-de-sac	92,000	-
Service Road - West and North Phase	921,000	496,000
Airport Maintenance Facility Expansion	1,298,000	-
Environmental Assessment (Decommission Rwy 15-33)	567,000	-
NE Airfield Pavement Removal	-	2,147,000
NE Airfield Public Road Development	-	6,786,000
NE Airfield Utility Extensions	-	849,000
Airport Rescue and Fire Fighting (ARFF) Facility	-	2,199,000
Fuel Farm Improvements - Additional JetA Storage	-	680,000
Total Projects 2013 - 2027	<u>63,654,000</u>	<u>41,701,000</u>
Total Capital Projects	<u>99,478,314</u>	<u>41,701,000</u>
Net increase (decrease) in Designated Capital Net Assets	(68,978,314)	19,299,000
Ending Designated Capital Net Assets	<u>\$ (52,154,824)</u>	<u>\$ (32,855,824)</u>
Revenues Needed from Other Sources to Fund Capital Projects^	<u>\$ 52,154,824</u>	<u>\$ 32,855,824</u>

* - Comprised of annual property tax levy of \$6.1 million.

^ - Comprised of federal and State grant funds, proceeds from land sales and other operating revenues

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Observations

The following observations are derived from interviews with the Airport Authority, review of documents provided by the Authority, and best practice research.

Financial Analysis

The Financial Analysis below presents a few high-level observations based on a review of audited financial statements and supplementary information provided by the Authority. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data.

The Airport Authority has experienced fluctuating revenue and expenditure growth between fiscal years 2008 and 2010. By controlling the growth of expenses at the levels similar to the revenue changes, the potential financial risk has been mitigated. It will be essential to maintain high visibility from a budget and accounting standpoint should volatility continue. Specific areas to monitor are as follows:

- The Authority's unrestricted net assets have declined over \$2.5 million over the past 3 years to a balance of about \$2 million, as of December 31, 2010. Economic conditions have been the primary reason that have resulted in operating losses in the airport and golf operations totaling a combined \$1.4 million for fiscal years 2010 and 2009. Unrestricted net assets represent reserves that are available for operations. The Authority's unrestricted net assets represent, on average, less than two or three percent of total net assets. Thus, the Authority may potentially encounter issues in terms of cash flow and the ability to meet unexpected costs because many of its current assets are already committed to specified uses by the Board, management or contractual obligations.

Golf Course Operations

- The Golf Course Operations had net losses of over \$445,000 in FY 2011, \$312,000 in FY 2010, \$250,000 in FY 2009 and \$75,000 in FY 2008 resulting in an estimated net asset deficit of approximately \$395,000 as of December 31, 2011. The balance in the Golf Course operations may mean that other operations will need to be used to meet obligations of the Golf Course in the future. If expenditures continue to exceed revenues, the assets available to support the golf course will continue to be depleted. In accordance with FAA requirements, any deficits in the golf course operations that are funded by airport operations will need to be repaid to the airport operations. Therefore, the golf course operations will need to be regularly monitored to ensure these repayments are feasible.

Budgetary Controls

A component of the internal control function is the ability to project expenses and to use operating budgets to direct spending. The Authority has experienced periods where operating revenues have been declining and the budgeted expenses for the past three years appear to have been based on the previous year's expenses. The declining revenues have offered complexity to the budgeting process. While the actual expenses for FY 2008 and 2009 were within the budget, the Authority's expenses exceeded its budget by about \$1,218,000 for the year ended December 31, 2010. The Authority tried to estimate expenses for the year in order to prepare its budget; however, due to the economic times it was difficult to determine the amounts to project for the forth-coming year.

Budget and Appropriation Format

- The Authority's Budget and Appropriations Ordinance consists of a schedule of operating and non-operating revenues and expenditures by operation for the airport administration, the flight center fuel operations and the Prairie Landing Golf Course. In addition, the Budget and Appropriations Ordinance presents non-operating expenses and capital development program expenses and expected revenues. The Budget and Appropriations Ordinance is presented in a schedule format to demonstrate the expected cash activity, including the beginning and ending cash balances. While the format of the Budget and Appropriations Ordinance is not prescribed by statute or other

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regulatory measures, best practices indicate that more details and explanations in the form of narratives and other analysis aid in the review of the budget by the Authority and DuPage County Board as well as the public. Such clarity in the budget presentation will provide better information about how the financial plan of the Authority will be carried out and how the activities will be funded. The Authority is taking steps to develop more rigorous explanations in future budgets that will support the Appropriations Ordinance.

Capital Improvement Program (CIP)

- The Authority has restricted net assets for future capital purchases of nearly \$16 million, as of December 31, 2010. As of December 31, 2010, the net assets restricted for future capital purchases had increased by nearly \$8.5 million since December 31, 2008, as the Authority has set aside these funds to fund the five-year capital improvement plan through the use of the property tax levy.
- As of December 31, 2011, The Authority had almost \$16,000,000 in a separate capital reserve cash account. Per inquiry with Authority management, these funds are comprised of property taxes and transfers from operating cash and are designated for specific future capital projects. We requested a roll-forward schedule from the Authority to detail the inflows and outflows from this account from 2008 through 2011. The Authority and its external auditor provided the information included in the Financial Analysis section of this report. Crowe prepared the schedule and assumed that the entire property tax levy was deposited into this account each year and that 100% of the capital purchases were funded from this account.
- Prior to 2008, the Authority levied property taxes to pay debt service on debt that had been issued by the Authority. Upon the retirement of the Authority's bonds, the levy for property taxes has continued and has been designated for capital expenditures by the Authority's Board. In 2010, the Authority levied a tax for \$6,476,024, and then abated the tax by \$500,000, such that \$5,976,024 was levied. The Authority levied the same amount of tax in 2011 for \$6,476,024, and then abated the tax by \$500,000 on March 21, 2012, such that amount to be levied is \$5,976,024.¹² In 2011, the Authority reduced their annual levy by \$500,000 so that the total levy is approximately \$6,000,000. If the Master Plan is not adjusted and Federal and State funding does not increase, or other revenue sources are not found, it appears that the Authority will have to continue levying property taxes through 2027 in order to complete the projects outlined in the Master Plan. However, further analysis is necessary as federal and state grant funding is uncertain and the Authority plans to update its Master Plan in 2014. The Authority has informally been updating and monitoring its Capital Improvement Plan on a regular basis. DAA plans to implement changes in its annual budget process to more formally describe its Capital Plan.
- The Authority has reported restricted net assets in its annual financial statements by designating property taxes for capital purposes through Board action. In accordance with governmental accounting standards,¹³ restricted net assets should be reported only if there are external restrictions placed on the net assets. Since the Authority's Board has designated these net assets through setting aside the property taxes for the five-year capital improvement plan the action by the Board is considered an internal designation.¹⁴ Therefore, it does not appear that the current restriction of net assets meets the definition of restricted net assets in accordance with governmental accounting standards. Instead, the restricted net assets should be presented in the financial statements as unrestricted net assets.
- The Authority has annually levied property taxes to fund the capital program. The 2011 levy was passed by the Authority's Board in June of 2011 in order to meet the State Statutory requirement that the levy be passed on or before the second Tuesday in August, of each year. The statutory language presents some inherent difficulty because the 2011 tax levy is to be collected in fiscal year 2012; therefore, the tax levy relates to the Budget & Appropriations Ordinance for capital improvements for the fiscal year 2012 and other long-term capital improvement projects. There should be a connection of the tax levy's relationship to the capital improvement spending for 2012, and since the Authority passed the Budget & Appropriation Ordinance, on November 9, 2011, it is difficult to connect the two documents. Best practices provide for a better matching of the capital projects budget and appropriations and cash flow schedules to the levy that has been designated for

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specified purposes for better transparency. The Authority has a **Master Plan** that was prepared between 2008 and 2009 by an airport master planning firm, Leigh Fisher and Associates¹⁵ and is dated September 2009. According to the Master Plan,¹⁶ the primary purpose of this Master Plan (Plan) is to establish a long-range plan that maximizes the potential of DuPage Airport in the context of the Chicago region's aviation needs that also serves as a general guide to the logical development of Airport facilities. Additional objectives of the Master Plan include the following:

1. **Market Assessments.** Define, confirm, and reach consensus among stakeholders on the Airport's future role (in addition to its existing role serving general aviation activity) given the regional setting and potential demand that could be accommodated. Specifically, document the feasibility, potential benefits, and implementation factors associated with other potential aviation uses, such as passenger, maintenance, and/or air cargo service.
 2. **Airfield Requirements.** Investigate the need, benefits, and costs associated with providing additional airfield capacity and/or enhanced accessibility. Depending on the recommendations, identify a strategy (layout, timing, relocation plan, funding, etc.) for developing/redeveloping airfield improvements.
 3. **Non-aviation Development.** Determine the land that should be preserved for future aviation development and recommend the highest and best uses for land identified as available for non-aviation development.
 4. **Financial Plan.** Prioritize investment decisions recognizing competing needs for Federal and State funds and prepare a comprehensive financial plan that combines a functional Capital Improvement Program (CIP) with a realistic financial plan, placing emphasis on the near-term (five-year) planning horizon and reflecting the Authority's business objectives.
 5. **Environmental Approvals.** Develop strategies to smoothly implement recommended Airport improvements and establish the groundwork for any required National Environmental Policy Act (NEPA) documents.
- For this report's purpose, we have only considered the Financial Plan section of the Master Plan for further analysis to review the Capital Improvement Program (CIP). According to the CIP, estimated capital expenditures total approximately \$151.9 million (in escalated dollars) and include all projects in the Recommended Development Plan (RDP) that has been prepared through 2027 and incorporated into the Master Plan.¹⁷ Table 7-1 (see Appendix A) found in the Master Plan summarizes the CIP for near-term (2008-2012), mid-term (2013-2017), and long-term (2018-2027) projects. A breakdown of the projects, is as follows:¹⁸

Near-term (2008-2012)	\$ 46,587,000
Mid-term (2013-2017)	63,654,000
Long-term (2018-2027)	<u>41,701,000</u>
Total	<u>\$ 151,942,000</u>

- The Master Plan also provides projected sources and uses of funds for the Near-term projects (2008-2012), of \$46,587,000, in Table 7-2 (See Appendix A) of the Plan. The Table provides for funding of the project from the following sources: federal grants \$20,835,000, state grants \$2,543,000 and local funds \$23,209,000. According to the Master Plan:

"Table 7-2 shows that projected funding sources are sufficient to meet projected uses for near-term projects. As shown in Table 7-2, total estimated capital expenditures approximately equal the Authority's financial capacity during the planning period. Numerous assumptions underlie the projected financial capacity, some of which may underestimate the financial capacity. It is possible that any maintenance projects not shown in the CIP (particularly in later years) could be funded by excess sources of funds should such funds become available."¹⁹

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The Master Plan is comprehensive in nature, it was issued in September of 2009, and the Authority has plans to update the Master Plan in 2014. It is appropriate to update the Master Plan every 5 years as it is meant to be a long-range view and it can help re-prioritize the capital improvements. The Authority should also utilize the CIP Schedule within the Plan for budgeting and planning purposes on an annual basis to determine if the assumptions used in the plan are still valid. For instance, the reasonableness levels of the expected federal and state grants outlined within the Master Plan will need to be revisited. As presented in Table 7 above, for the period of 2008 through 2012, the Authority intended to expend \$46,587,000 on capital projects per the Master Plan and had actual and budgeted capital spending for almost \$46,000,000 for that period. However, though capital spending was in line with the master plan in total, only just over \$10,000,000 of the \$46,000,000 spent was on projects in the Master Plan. This demonstrates that there could be a better alignment between the CIP Schedule and actual capital spending of the Authority to more clearly provide information about the capital programs, The Master Plan's CIP schedule found in Table 7-2 will need to be updated based on revised capital needs of the Authority and with changes in available funding sources. It is the Authority's intention to revise the Master Plan every 5 years, as the cost of the development of a Master Plan is significant.²⁰

Organizational Efficiency

- The DuPage Airport Authority has received a number of recognitions noting excellence in operations including: top FBO in Chicagoland by Aviation International News in 2010;²¹ Airport of the Year by the Illinois Department of Transportation, Aeronautics Division in 2011; and a Model for Regional Airport Excellence by U.S. Transportation Secretary Ray LaHood in 2011.²²
- According to the Authority, the employee handbook (written 7 years ago) has created cost savings of approximately \$200,000 annually by implementing the following:
 - Limiting the number of employee holidays to 6 plus 3 personal days
 - Adopting more strict hiring policies
 - Eliminating some employee benefits, including things such as car allowances and paid lunches²³
- The Authority has worked to eliminate positions where possible. In 2007, the Authority was able to eliminate two director and three manager positions by absorbing those duties elsewhere when the positions came open.²⁴
- The Authority sees itself as an enterprise that is comprised of three businesses – Aviation, Prairie Landing Golf Course, and the Business Park.
 - Federal law requires that all revenues earned at the DAA must remain with the DAA, and prohibits the subsidizing of non-aeronautical activities, meaning that both the business park and the golf course must be contributing financially in a self-sufficient manner, to the airport.²⁵
- The DuPage Flight Center was rated the #2 Fixed Base Operator (FBO) in Illinois by Aviation International News' Annual FBO Survey for North, Central and South America.²⁶
- The business park is under contract with CenterPoint Properties as the master developer. Thus, CenterPoint assumes the responsibility for the development of the business park.²⁷
- Recently, the DAA has begun to investigate selling some of the land that makes up the Business Park. The Authority is seeking FAA approval to sell of a total of 605.3 acres, approximately 533.6 acres are targeted for commercial development, and the rest is being set aside for sale to the city of West Chicago and Illinois Department of Transportation for infrastructure improvements and other uses.²⁸

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Duplication of Effort/Service

- While there are other airports in the region, the DuPage Airport Authority plays an important role in aviation by stimulating the local economy and serving as a designated reliever airport for O'Hare and Midway.²⁹

Procurement Methodology

- The DuPage Airport Authority received the Airport Consultants Council (ACC) 2012 Excellence in Procurement Award. This award recognizes procurement programs and practices that are worthy of serving as a model for other airports and public agencies to follow.³⁰
- The Authority recently hired a Director of Finance that serves as the Chief Procurement Officer. This creates a separation of duties between the Executive Director and the Chief Procurement Officer.³¹
- The DuPage Airport has a procurement policy in place, and has proposed changes to strengthen this policy. We have compared the Authority's procurement policy to the DuPage County procurement policy and found areas where the Authority's policy could be aligned with the County's policy. We have discussed the changes with Authority management and they have indicated that they have made changes to their policy in alignment with the County's policy. The changes are expected to be voted on by the Authority's Board during their May 16th meeting.³² The proposed changes include:
 - Record retention for contractors
 - A requirement that a review of the procurement policy be conducted every five years
 - Change Orders and Contract Modifications – Current policy requires additional approval if there is a price increase of up to \$2,500 or no more than 15% of initial price. The proposed change lowers this to 10% of the initial price.
 - Multi-Year Contracts – Current policy allows for multi-year contracts up to five (5) years. The proposed change will allow contracts up to four (4) years.
 - Declaration of Non Responsibility – Current policy allows the DAA to suspend or debar a vendor for up to 3 years. The proposed change shortens this time period to 2 years.
 - Provision for DAA to audit contractor books and records when related to a contract
 - Provisions that requires contractors to follow the DAA ethics policy³³

Internal Controls

Ethics

The DuPage Airport Authority has an ethics policy in place, and has proposed changes to strengthen this policy. The changes are expected to be voted on by the board during their May 16th meeting.³⁴ The proposed changes include:

- Future employment
- Former employment relationships³⁵

Credit Cards

The Airport Authority does have credit cards, and during the writing of this report, the DAA implemented a new credit card policy with the following key elements:

- There are three credit cards in use, which are specifically named within the policy.
- Each card is limited to a maximum of \$2,500.
- The process of requesting any additional cards from vendors must be reviewed with the Procurement Analyst and approved by the Finance Director.

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General Controls

The Authority's organizational chart, salary information, and personnel policy was submitted to the County in accordance with Ordinance OCB-001-11.

Transparency and Accountability

- The exchange of information between the Authority and the County could be improved. For example, the County Board was unaware that the DAA was requesting approval from the FAA to sell land until the process was underway.
- The DuPage Airport Authority has a website (<http://www.dupageairport.com>) where they post information regarding the airport, including their mission statement, meeting schedule, meeting agendas and minutes, policies, and recent news articles. Most of this information can be found under the link labeled "DuPage Airport Administration."

Other

- According to Illinois statute 70 ILCS 5/13, the appropriation ordinance adopted by the Authority shall be immediately presented to the County Board Chairman and he has the power to veto or reduce any line item in the ordinance.³⁶

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Better articulated the linkage between the Capital Improvement Plan and the tax levy

- The Authority should better articulate the use of the property tax levy to fund its capital plan by linking its capital needs and annual spending plans. While there are several unknowns regarding the available funding from the federal or state governments, the capital program needs that will be met through the tax levy should be presented as a justification for and continuation of the property tax levy.
- The Authority also should consider consulting with legal counsel about how to address the timing of the levy passage to provide more linkage to the capital plan and annual budget. Due to State Statutory requirements, the Authority is required to pass its tax levy prior to the second Tuesday of August. By passing the levy ordinance in June, a connection to the budget for the year the levy will be collected cannot be made until later in the year when the budget and appropriation ordinance is passed. For instance, in 2011, the Authority passed its tax levy in June and then passed its budget ordinance in November. Other taxing bodies have faced similar situations and have worked to develop procedures to pass the levy ordinance later than the second Tuesday in August, closer to the date of the passage of the appropriation ordinance. Delaying the passage of the tax levy ordinance will help the Authority explain how the tax levy is expected to be used.

Capital Improvement Program (CIP)

- The Authority should update the Capital Improvement Programs schedules as provided in their Master Plan. The Master Plan was prepared in 2009 and the assumptions maybe outdated, therefore, the Authority should revisit the CIP and determine if there are necessary changes to the schedules that were the basis for the Recommended Development Plan (RDP) included in the Master Plan.
- The Authority should maintain a separate ledger for the capital reserve cash account and ensure that all activity, both property tax deposits and capital expenditures are properly recorded to that account on an on-going basis. Further, the Authority should track capital expenditures on a quarterly basis

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by project and compare to the annual budget and Master Plan. Any variances noted should be discussed by Authority management and modifications to the budget or Master Plan should be made accordingly to account for these variances.

- The Authority should update the DAA Capital Cash Flow schedule (or similar schedule to track capital disbursements by project) on a quarterly basis to ensure that the timing of capital projects is continually tracked including disbursements for these projects and the funding source of the capital disbursements. This schedule should be compared to the Authority's Master Plan to ensure that it is in line with the plan and that any variances are discussed and properly addressed. In addition, the DAA Capital Cash Flow schedule should include beginning and expected ending cash balances to demonstrate the role of the Capital Reserve in the Authority's Capital Improvement Program and how the reserve funds are planned for deployment.
- The Authority should include a supplementary schedule of the Capital Improvement Programs in its Annual Financial Report to update the Authority and County Boards and the public about the use of the capital funds and the projects that were funded. The schedule should provide details of the projects completed and undertaken during the fiscal year. In addition, the schedule could also show cumulative budget and master plan information to update the budget and plan to actual activities.

Financial Monitoring

- The Authority should continue to monitor its financial situation, especially during the current economic times. The Authority's annual budget monitoring and net operations should continue to be monitored through financial reporting to the Board on a monthly basis. Any revisions to the budget necessary due to unexpected financial results should also be communicated throughout the fiscal year.
- We recommend that the Authority implement best practices related to its Budget and Appropriation Ordinance process. The Authority's current process of presenting a schedule of its Budget and Appropriation does not present historical financial trends, performance measures, or informational analysis to describe the financial plans of the budget for the year. A best practice for budgetary presentation includes the addition of at least five years of data, performance measures and outcomes, narratives, and analysis to provide details of the budget to provide more transparency to the Authority's operations. In particular, there should be more explanation about the Authority's capital program and the funds that will be used for the program.
- The Authority should also review the reporting of the net assets related to the property tax levy committed to the Capital Reserve account as restricted net assets in accordance with generally accepted accounting principles. While the current practice of designating the property tax levy for capital purposes is allowed, it is not required by external parties and a different presentation on the financial statements may be required.

Increase Transparency and Accountability

- Provide regular communication to the public, the County Board, and County Board Chairman's Office.
- Consider assigning staff to serve as a liaison between the DuPage Airport Authority and DuPage County to improve communications, share information and best practices, etc.
- Information regarding the airport, including their mission statement, meeting schedule, meeting agendas and minutes, policies, and recent news articles are on the DuPage Airport Authority's website (<http://www.dupageairport.com/>), but information can be difficult to find to an unfamiliar user. The Authority may want to consider re-organizing or re-labeling parts of the site to make information easier to find. Specifically:

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- Arrange the site navigation such that there are drop-downs and eliminate "buried links"
- Implement site search
- Arrange news and events in chronological order - with the date displayed prominently
- Expire event pages for events that have already occurred
- Provide additional descriptions of PDF documents, such that the user knows what they are downloading before they take the time to download the information

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board members.

Implement Internal Controls Policies

Procurement

- The DuPage Airport Authority has a procurement policy and they have been recognized by the Airports Consultants Council in 2012 with an Excellence in Procurement Award. To further improve the policy (and because the Authority is a component unit of the County), the procurement policy should further align with the County's policy. As a result of this report, the Authority has proposed changes to that policy to bring it into alignment with the County's procurement policy and is expected to have the policy approved at the Authority's Board meeting in May.³⁷ We recommend that the Board adopt the proposed changes to the procurement policy.

Ethics

- The DuPage Airport Authority has had an ethics policy in place since 2005. Based upon our recommendations, the Authority has proposed changes to that policy to bring it into alignment with the County's policy, and is expected to have the Policy approved at the Authority's Board meeting in May.³⁸ We recommend that the Board adopt the proposed changes to the Ethics Policy.

Structural Recommendation

The following recommendation applies to the long-term sustainability of the organization and may require structural change. The Authority's Board, in collaboration with the County should engage citizens in a collaborative process to discuss structural options.

Review the operating structure/approach for golf course

- For four consecutive years, the golf course has shown growing operating losses. As expenditures continue to exceed revenues, the assets available to support the golf course will continue to be depleted. In addition, based on preliminary 2011 financial results the golf course net assets are expected to be in a deficit situation, which means that funds will need to be borrowed from airport operations and will need to be paid back to airport operations in accordance with FAA requirements. We recommend that the Authority review the operating structure/approach in detail and generate a five year operating plan, inclusive of financial activities and projections as well as how the golf course will be managed – by internal staff or an external vendor. The plan should also include options for the Authority to address prior spending deficits and the repayment of funds borrowed from airport operations.

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Conclusion

The DuPage Airport Authority has maintained a stable operation and has employed best practices to manage its operations. It also plays an important role in aviation for the region as well as the local economy. While the economic times have had an impact on the airports operations, the Authority's Management has proactively addressed fluctuations in operating revenues by managing expenses, which will help it sustain operations. Further, the Authority has made a significant effort to reduce its property tax levy over the years. In 1994, the levy was over \$19 million.³⁹ In 2009, the levy was approximately \$6.6 million. In 2010 and 2011, the Authority abated \$500,000 of the levy, and in 2012, the Authority permanently reduced the levy by \$500,000 to approximately \$6.1 million.

The Authority was recognized as a model for regional airport excellence by U.S. Transportation Department Secretary Ray LaHood in June of 2011. In addition, the Authority received the Airport Consultants Council (ACC) 2012 Excellence in Procurement Award recognizing the procurement programs and practices as a model for other airports.

There are several recommendations that we have made to the Authority regarding its procurement and ethics policies to align the policies with the County's Procurement and Ethics policies. The Authority has revised these policies and plans to present them to the Authority's Board soon for passage. The procurement and ethics policies alignment will provide greater accountability and transparency to the public and to the County.

We have included recommendations in our report for the Authority to improve its transparency, budgeting and reporting procedures, and its capital program monitoring. **Transparency** can be improved by the Authority implementing changes to its website, including: implementing site search, eliminating buried links, and arranging items in chronological order. Linkage of the tax levy to the Authority's budget and better articulation of the use of the tax levy in the capital improvement plan will also provide greater transparency. The linkage between the levy and the capital improvement plan is important to demonstrate how the levied funds are going to be used and to determine what types of capital programs can be offered due to the availability or limitations of external funding sources. The Authority's **budgeting and reporting** functions should be improved through the preparation of a comprehensive multi-year budget that presents historical information, performance measures, narratives and the inclusion of the five-year capital improvement plan within the annual budget. Regular reporting of budget to actual results and the capital improvement program activity will help the Authority communicate plans and actual financial results. The most significant area for improvement for the Authority is the **capital improvement plan** monitoring. Key observations and recommendations related to the capital improvement plan include the following:

- Regular updating of the Capital Improvement Plan and reconciling to the Master Plan, to account for changes in the economy, financial funding, and capital needs, should be conducted at least annually to determine what project budget changes are necessary and what ability the Authority has to obtain funding from other sources.
- The Authority has developed a cash flow schedule of its capital plan that presents projected projects for the next five years. However, the schedule does not consider beginning and ending cash in the capital reserve accounts that are committed to the capital improvement program. In addition, the cash flow schedule has not been regularly updated to reflect actual capital activity. The cash flow schedule should reflect the capital reserve cash balances and the needs of the capital program with details in order provide the most useful information to the Authority for decision-making.
- The Authority has not maintained separate accounting of its capital improvement activity within its financial accounting system. We requested a schedule of historical activity from the Authority and such information was not readily available from Authority staff. Instead, the capital asset information presented in this report for the years 2008 through 2010 was prepared by Crowe based on information obtained from the Authority's external auditor. The Authority should maintain separate accounting records to support activity in the capital improvement program.

Finally, the Authority should continue to monitor the golf course operations to maintain compliance with FAA regulations and to look for methods to address the sustainability of the operations. The Authority has

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indicated that it will evaluate the financial situation at the end of fiscal year 2012 to determine if there is an opportunity to improve financial operations through the use of an operating vendor. We also recommend that the Authority develop a multi-year operating plan with financial projections to help guide future decisions about golf course operations.

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APPENDIX A – DuPage Airport Master Plan Tables 7.1 and 7.2



Table 7-1
Capital Improvement Program
DuPage Airport Master Plan

	Project cost (a)	Funding Sources			
		Federal AIP Entitlement	Grants (b) Discretionary	State Grants	Local Funds
Near-term (2008-2012)					
Runway 20L 1,343-foot Extension	\$ 3,250,000	\$ 750,000	\$ 2,338,000	\$ 81,000	\$ 81,000
Runway 2R-20L Parallel Taxiway (East)	7,422,000	--	7,051,000	186,000	185,000
Prairie Path Relocation / Golf Course Modification	918,000	--	872,000	23,000	23,000
Runway 10 250-foot Extension and Taxiways	1,625,000	--	1,544,000	41,000	40,000
Runway 2L-20R Widen and Shoulders	7,201,000	--	--	1,948,000	5,253,000
New Conventional Hangars – 97,900 SF	17,405,000	--	--	--	17,405,000
Avigation Easement Acquisition	2,901,000	--	2,756,000	73,000	72,000
Tower Rd/Kautz Rd Intersection Reconfiguration	50,000	--	--	45,000	5,000
Southeast Drainage Project	4,113,000	--	3,907,000	103,000	103,000
Southeast Utility Extensions	745,000	--	708,000	19,000	18,000
Service Road - Southeast	457,000	--	434,000	11,000	12,000
Environmental Assessments - Airfield Projects	500,000	--	475,000	13,000	12,000
Subtotal	\$ 46,587,000	\$ 750,000	\$20,085,000	\$2,543,000	\$ 23,209,000
Mid-term (2013-2017)					
Runway 2L-20R Strengthen and Taxiway Improvements	\$ 22,577,000	\$ 750,000	\$20,698,000	\$ 564,000	\$ 565,000
Tower Road T-Hangar Rehabilitation	525,000	--	--	--	525,000
Tower Road T-Hangar Replacement	6,852,000	--	--	--	6,852,000
Tower Road Conventional Hangar Rehabilitation	1,608,000	--	--	--	1,608,000
New Conventional Hangars – 97,900 SF	19,029,000	--	--	--	19,029,000
Conventional Hangar Apron and Taxiway	4,468,000	--	--	--	4,468,000
T-Hangar Relocation - 30 units	3,845,000	--	--	--	3,845,000
SE Apron Construction	1,512,000	--	1,436,000	38,000	38,000
SE Access Roadways and Parking	360,000	--	--	--	360,000
Tower Road Cul-de-sac	92,000	--	--	--	92,000
Service Road - West and North Phase 1	921,000	--	--	413,000	508,000
Airport Maintenance Facility Expansion	1,298,000	--	1,233,000	32,000	33,000
Environmental Assessment (Decommission Rwy 15-33)	567,000	--	539,000	14,000	14,000
Subtotal	\$ 63,654,000	\$ 750,000	\$23,906,000	\$1,061,000	\$ 37,937,000
Long-term (2018-2027)					
Tower Road Conventional Hangar Rehabilitation	\$ 3,370,000	\$ --	\$ --	\$ --	\$ 3,370,000
New Conventional Hangars – 97,900 SF	22,052,000	--	--	--	22,052,000
Conventional Hangar Apron and Taxiway	3,122,000	--	--	--	3,122,000
Service Road - North Phase 2	496,000	--	471,200	12,400	12,400
NE Airfield Pavement Removal	2,147,000	--	--	--	2,147,000
NE Airfield Public Road Development	6,786,000	--	--	--	6,786,000
NE Airfield Utility Extensions	849,000	--	--	--	849,000
Airport Rescue and Fire Fighting (ARFF) Facility	2,199,000	1,500,000	589,050	54,975	54,975
Fuel Farm Improvements - Additional JetA Storage	680,000	--	--	--	680,000
Subtotal	\$ 41,701,000	\$1,500,000	\$ 1,060,250	\$ 67,375	\$ 39,073,375
Total	\$151,942,000	\$3,000,000	\$45,051,250	\$3,671,375	\$100,219,375

Notes:

(a) Project costs have been escalated to year of construction assuming an annual rate of 1.8%.

(b) AIP = Airport Improvement Program.

Source: Jacobs Consultancy, September 2009.

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Table 7-2
Sources and Uses of Funds—Near-Term Projects
DuPage Airport Master Plan

	Total	2009	2010	2011	2012
Sources of funds					
Federal grants					
AIP entitlement grants	\$ 750,000	\$ 148,000	\$ 602,000	\$ --	\$ --
AIP discretionary grants	<u>20,085,000</u>	<u>2,303,000</u>	<u>10,785,000</u>	<u>5,102,000</u>	<u>1,895,000</u>
Subtotal	\$20,835,000	\$2,451,000	\$11,387,000	\$ 5,102,000	\$ 1,895,000
State grants	\$ 2,543,000	\$ 109,000	\$ 300,000	\$ 519,000	\$ 1,615,000
Local funding (a)					
Annual property tax receipts (b)	\$20,635,000	\$4,305,000	\$ 4,611,000	\$ 5,558,000	\$ 6,161,000
Drawdown of existing balances	<u>2,574,000</u>	--	--	--	<u>2,574,000</u>
Subtotal	<u>\$23,209,000</u>	<u>\$4,305,000</u>	<u>\$ 4,611,000</u>	<u>\$ 5,558,000</u>	<u>\$8,735,000</u>
Total sources	\$46,857,000	\$6,865,000	\$16,298,000	\$11,179,000	\$12,245,000
Uses of funds					
Runway 20L 1,343-foot Extension	\$ 3,250,000	\$ 641,000	\$ 2,609,000	\$ --	\$ --
Runway 2R-20L Parallel Taxiway (East)	7,421,000	--	3,928,000	1,731,000	1,762,000
Prairie Path Relocation / Golf Course Modification	918,000	--	918,000	--	--
Runway 10 250-foot Extension and Taxiways	1,625,000	--	805,000	820,000	--
Runway 2L-20R Widen and Shoulders	7,201,000	--	--	1,420,000	5,781,000
New Conventional Hangars – 97,900 SF	17,405,000	4,236,000	4,312,000	4,389,000	4,468,000
Avigation Easement Acquisition	2,901,000	1,438,000	1,463,000	--	--
Tower Rd/Kautz Rd Intersection Reconfiguration	50,000	50,000	--	--	--
Southeast Drainage Project	4,113,000	--	2,038,000	2,075,000	--
Southeast Utility Extensions	745,000	--	--	745,000	--
Service Road - Southeast	458,000	--	225,000	--	233,000
Environmental Assessments - Airfield Projects	<u>500,000</u>	<u>500,000</u>	--	--	--
Total uses	\$46,587,000	\$6,865,000	\$16,298,000	\$11,180,000	\$12,244,000

Notes:

(a) For the purposes of this report, all contributions from the Capital Fund assumed to be from the annual property tax levy.

(b) Discounted assuming 1.8% inflation per year.

Source: Jacobs Consultancy, September 2009.

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- ¹ "DuPage Airport Authority Employee Roster" DuPage Airport Authority. September 7, 2011. Pgs. 1-2.
- ² "DAA Brochure." DuPage Airport Authority Website. Accessed January 4, 2012.
<http://www.dupageairport.com/documents/DAA-Brochure.pdf>
- ³ "The Economic and Fiscal Impact of the DuPage Airport Authority and Associated Activities on the DuPage County Economy." Gruen Gruen + Associates. March 2012. P. 3.
- ⁴ "Illinois Compiled Statutes: Special Districts (70 ILCS 5/) Airport Authorities Act." Illinois General Assembly Website. Accessed January 4, 2012. <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=823&ChapterID=15>
- ⁵ "DuPage Airport Authority." DuPage County Website. Accessed January 4, 2012.
http://dupageco.org/CountyBoard/Appointive_Bodies/29509/
- ⁶ "DuPage Airport Authority Board of Commissioners Meeting/Holiday Calendar." DuPage Airport Authority Website. Accessed January 4, 2012. <http://www.dupageairport.com/Board/2011%20DAA%20Board%20Calendar.pdf>
- ⁷ "Annual Financial Report For the Year Ended December 31, 2010" DuPage Airport Authority. June 30, 2011. Pg. 4.
- ⁸ "Interview Notes" Interview with David Bird, Patrick Hoard and Stephen Davis of DuPage Airport Authority. December 2, 2011 Pg. 2.
- ⁹ Call with David Bird. May 7, 2012.
- ¹⁰ "Ordinance 2011-246 Tentative Budget & Appropriations Ordinance for the DuPage Airport Authority for the Fiscal Year Beginning January 1, 2012 and Ending December 31, 2012." Pg.1.
- ¹¹ "Re: Reduction of Tax Levy." Email from David Bird. May 5, 2012.
- ¹² "Interview Notes" Interview with David Bird, Patrick Hoard and Mark of DuPage Airport Authority. On April 2, 2012.
- ¹³ Governmental Accounting Standards Board (GASB) Statement 34, as amended, restricted net asset presentation.
- ¹⁴ "Interview Notes" Interview with David Bird, Patrick Hoard and Mark of DuPage Airport Authority. On February 14, 2012.
- ¹⁵ Call with DAA. May 8, 2012
- ¹⁶ DuPage Airport Authority Master Plan, September 2009, Chapter 1, Introduction, Master Plan Objectives.
- ¹⁷ DuPage Airport Authority Master Plan, September 2009, Chapter 7, Implementation Plan, Financial Plan, Table 7-1, Capital Improvement Program and Table 7-2, Sources and Uses of Funds-Near Term Projects.
- ¹⁸ DuPage Airport Authority Master Plan, September 2009, Chapter 7, Implementation Plan, Financial Plan, Table 7-1, Capital Improvement Program and Table 7-2, Sources and Uses of Funds-Near Term Projects.
- ¹⁹ DuPage Airport Authority Master Plan, September 2009, Chapter 7, Implementation Plan, Financial Plan, Table 7-1, Capital Improvement Program and Table 7-2, Sources and Uses of Funds-Near Term Projects.
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- ²¹ "DAA Accomplishments Press Release" DuPage Airport Authority. Spring 2012.
- ²² "DuPage County Airport a model for regional airport excellence." United States Department of Transportation. June 10, 2011. <http://fastlane.dot.gov/2011/06/dupage-county-airport.html>
- ²³ "Interview Notes" Interview with David Bird, Patrick Hoard and Stephen Davis of DuPage Airport Authority. December 2, 2011 Pg. 1.
- ²⁴ Call with David Bird. May 7, 2012.
- ²⁵ "Interview Notes" Interview with David Bird, Patrick Hoard and Stephen Davis of DuPage Airport Authority. December 2, 2011 Pg. 4.
- ²⁶ "Aviation International News FBO SURVEY: 2011 The Americas" Aviation International News. April 2010. Pg. 3.
- ²⁷ "Interview Notes" Interview with David Bird, Patrick Hoard and Stephen Davis of DuPage Airport Authority. December 2, 2011 Pg. 4.
- ²⁸ "DuPage Airport hopes shift helps development take off" Chicago Real Estate Daily. January 16, 2012.
<http://www.chicagorealestatedaily.com/article/20120116/CRED03/120119841/dupage-airport-hopes-shift-helps-development-take-off>
- ²⁹ "Flying Through DPA." DuPage Airport Authority Website. Accessed January 4, 2012.
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- ³⁰ "DuPage Airport Authority Recipient of the 2012 ACC Excellence in Procurement Award" ACC News Release. March 1, 2012. P. 1.
- ³¹ "Interview Notes" Interview with David Bird, Patrick Hoard and Stephen Davis of DuPage Airport Authority. December 2, 2011 Pg. 2.
- ³² Call with David Bird. May 7, 2012.

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³³ Email from Pam Miller. April 3, 2012

³⁴ Call with David Bird. May 7, 2012.

³⁵ Email from Pam Miller. April 3, 2012

³⁶ "Illinois Compiled Statutes: Special Districts (70 ILCS 5/) Airport Authorities Act." Illinois General Assembly Website. Accessed January 6, 2012. <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=823&ChapterID=15>

³⁷ "RE: DAA Follow-up" Email from Patrick Hoard. April 27, 2012.

³⁸ "RE: DAA Follow-up" Email from Patrick Hoard. April 27, 2012.

³⁹ Call with David Bird. May 7, 2012.

DuPage County Board of Health

Background

The DuPage County Board of Health ensures that all state laws and county ordinances regarding the preservation of health are upheld. The Board authorizes and executes any necessary health inspections and investigations in DuPage County and is responsible for making health information readily available to the citizens of DuPage County.¹

Enabling Statute

55 ILCS 5/5-25 County Code-County and Multi County Health Department: The enabling statute for the Board of Health outlines the formation of the Board based on county population. It sets guidelines for all of the following:²

- Number of board members
- Required qualifications of board members (i.e. number of physicians, dentists, etc.)
- Who appoints board members

Board Composition

The Board consists of 11 board members that serve three-year terms (County Board members serve one-year term). At least two members must be physicians licensed to practice medicine in Illinois and all its branches, at least one member must be a dentist licensed in Illinois, two members must be members of the County Board, and at least one member must have experience in the field of mental health. The Board President receives \$400 per month and trustees receive \$200 per month.³ Per provided Board materials, meetings are scheduled for the first Thursday of each month.⁴

Financial Summary

The Health Department is included in the county CAFR (considered blended component) and receives funding from the general fund.⁵ The County Board approves the Health Department's budget of roughly \$45,500,000.⁶

Observations

The following observations are derived from interviews with the Board of Health, review of documents provided by the Board, and best practice research.

Financial Analysis

- Changing County demographics and a projected increase in spending of 20% per year was predicted to lead to a deficit of \$9 million by 2007.⁷ Because of this, the Board of Health and Health Department have worked to get "leaner and meaner" by exploring efficiency and cost-saving opportunities within the Department. In 2011, the Department proposed a balanced budget regardless of an increase of 18% for personnel costs,⁸ and has decreased the percentage of tax dollars to programs.⁹
- The economic situation has affected the Health Department's financial situation. The Department had a decrease in net assets of about \$1.2 million for the year ended November 30, 2008. They reduced Public Health Service expenses by approximately \$2.3 million, or 5%. The Department has taken action to address revenue reductions resulting in an increase in net assets of approximately \$1.9 million for the year ended November 30, 2010.

Summarized Financial information is as follows:

Summary Statement of Net Assets

	<u>Nov. 30, 2010</u>	<u>Nov. 30, 2009</u>	<u>Nov. 30, 2008</u>
Assets			
Current Assets	51,180,700	48,912,086	46,760,835
Capital Assets	12,179,136	12,059,717	12,287,466
Total Assets	<u>63,359,836</u>	<u>60,971,803</u>	<u>59,048,301</u>
Liabilities			
Current Liabilities	23,205,992	23,122,102	21,177,358
Long-term Liabilities	2,388,589	1,994,302	2,209,681
Total Liabilities	<u>25,594,581</u>	<u>25,116,404</u>	<u>23,387,039</u>
Net Assets			
Invested in Capital Assets	12,179,136	12,059,717	12,287,466
Restricted for Grant Programs	2,604,418	3,186,939	2,867,299
Unrestricted	22,981,701	20,608,743	20,506,497
Total Net Assets	<u><u>37,765,255</u></u>	<u><u>35,855,399</u></u>	<u><u>35,661,262</u></u>

Summary Statement of Activities

	<u>Nov. 30, 2010</u>	<u>Nov. 30, 2009</u>	<u>Nov. 30, 2008</u>
Expenses			
Public Health Services	45,150,086	47,886,451	47,511,302
Revenues			
Program Revenues			
Charge for Services	13,941,650	13,440,256	12,601,461
Charge for Rent			787,703
Operating Grants	14,792,591	16,264,802	13,839,231
Total Program Revenues	<u>28,734,241</u>	<u>29,705,058</u>	<u>27,228,395</u>
Net program Expenses	<u>16,415,845</u>	<u>18,181,393</u>	<u>20,282,907</u>
General Revenues			
Taxes	18,084,877	17,993,957	17,998,743
Interest			594,302
Miscellaneous	240,824	381,573	467,404
Total General Revenues	<u>18,325,701</u>	<u>18,375,530</u>	<u>19,060,449</u>
CHANGES IN NET ASSETS	1,909,856	194,137	(1,222,458)
Net Assets, Beginning	<u>35,855,399</u>	<u>35,661,262</u>	<u>36,883,720</u>
Net Assets, Ending	<u><u>37,765,255</u></u>	<u><u>35,855,399</u></u>	<u><u>35,661,262</u></u>

Sources :

1. 2009 DCHD Annual Financial Report 11
2. 2010 DCHD Annual Financial Report

Organizational Efficiency

- An outside firm was hired to help with a new service delivery model. The Health Department took an analytical approach on how to conduct business by looking at other health service models and finding one that was scalable to their needs.
- With this outside study, the Health Department has completed efficiencies with almost all programs and staff (Mental Health is final department). Specific operational accomplishments from 2006-2011 include:¹⁰
 - Redesign to centralize intake, client benefiting and front desk operations complete
 - IT Infrastructure platform rebuilt
 - Implementation of EMR
 - Organization redesign of clinical and business operations nearly complete
 - Scalable service delivery model nearly complete
- The Health Department budgeted for 496 full-time employees in 2011, down from 576 in 2006. Additionally, the Department budgeted for 80 part-time employees in 2011, down from 121 in 2006.¹¹
- Changes such as restructuring the delivery of services and attaining greater efficiency through the use of technology have helped the Health Department move forward with expanded services at a lower cost.¹²

Duplication of Effort/Service

- The Health Department has its own IT and Billing units. Some overlap of function may occur in these units and corresponding County departments.¹³

Procurement Methodology

- The Board established a compliance committee to review the procurement compliance within the Department and to check personnel records.¹⁴ The procurement policy was submitted and upon review of the policy, the following areas of inconsistency with the County policy were found:
 - Record retention for contractors
 - Authorization for the use of electronic transmissions
 - Communication with bidders/offerors
 - Circumstance not suitable for Bid
 - Contract for Legal Services
 - Guidance for review of the procurement policy
- Overall, the Board's procurement policy is very similar to the County's. Some differences may be due to grants.¹⁵

Internal Controls

- The Health Department has performed very well in nearly all audits by regulatory bodies (i.e. Illinois Department of Public Health). Any infractions were minor and a plan to rectify was promptly initiated.¹⁶
- Based on the following statement in the DuPage County Health Department Ethics Policy, the Board of Health is aligned with the county policy:

The guidelines of this policy have been developed in accordance with the DuPage County Ethics Ordinance. Each employee is responsible for adhering to the guidelines of this policy and those of the Ethics Ordinance. If, at any time, there appears to be an inconsistency between

this policy and the DuPage County Ethics Ordinance, the Ordinance shall supersede this policy.¹⁷

- The Health Department does have one credit card and a credit card policy. Neither the Board of Health members nor any Health Department staff has access to this credit card. All purchasing is done through procurement staff with approval of the Service Unit Director.¹⁸

Transparency and Accountability

- The DuPage County Health Department has a website (<http://www.dupagehealth.org>) where they post a significant amount of information regarding the Health Department, including their mission statement, meeting schedule, meeting agendas and minutes, financial information, public health notices, and recent news articles.¹⁹

Other

- The Board of Health/Department of Health maintains the following information and it is on file with the County:
 - Organizational Chart
 - Salary Information
 - Personnel Policy

Operational Recommendation(s)

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Continue to monitor the Federal and State financial situation

- We recommend that the Board of Health and Health Department continue to monitor the Federal and State financial situation as the Health Department's financial results are dependent upon the funding provided by outside sources, primarily the State of Illinois.

Implement Internal Controls Policies

Procurement

In order to more fully align its procurement policy with DuPage County, we recommend that the Board of Health **add** the following information:

- Record retention for contractors (recommended 3 years from final payment)
- Authorization for the use of electronic transmissions
- Communication with bidders/offerors
- Circumstance not suitable for Bid
- Contract for Legal Services
- Guidance for review of the procurement policy (recommended every 5 years)

Structural Recommendation(s)

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Process Improvement

- Complete process improvement project as designed.

The Board of Health and Health Department have made significant efforts to explore efficiency measures within most divisions of the Health Department. Continuing this review with the remaining divisions ensures the entire Department and Board are operating in the most efficient manner possible.

Share best practices

- Share best practices and process improvement plans with other county agencies.

Because the Health Department has been successful in researching, developing, and implementing best practices, sharing this information with other agencies would benefit the County as a whole.

Conclusion

The Board of Health and Health Department have remained financially stable by exploring efficiency and cost-saving opportunities within the Department. The Department has managed to propose a balanced budget and decreased the percentage of tax dollars to programs, regardless of an 18% increase in personnel.

With the aid of an outside study, the Health Department has completed efficiencies within almost all programs and staff (Mental Health is the final department). Specific operational accomplishments from 2006-2011 include:²⁰

- Redesign to centralize intake, client benefiting and front desk operations
- IT Infrastructure platform rebuild
- Implementation of EMR
- Organization redesign of clinical and business operations
- Scalable service delivery model

Although financially stable, we recommend that the Board of Health and Health Department continue to monitor the Federal and State financial situation as the Health Department's financial results are dependent upon the funding provided by outside sources, primarily the State of Illinois. We also recommend the Board update the procurement policy to bring it more in alignment with the County policy. Furthermore, we recommend that the Board complete its process improvement and share best practices and process improvement plans with other County agencies.

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- ¹ “DuPage County Board of Health” DuPage County. December 28, 2011
http://www.dupageco.org/CountyBoard/Appointive_Bodies/29499/ Illinois General Assembly Website. Accessed January 4, 2012. <http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=005500050HDiv%2E+5-25&ActID=750&ChapterID=12&SeqStart=94500000&SeqEnd=97175000>
 - ² “Illinois Compiled Statutes Counties Code (55 ILCS 5/) County and Multi County Health Departments”
 - ³ “DuPage County Board of Health” DuPage County. December 28, 2011
http://www.dupageco.org/CountyBoard/Appointive_Bodies/29499/
 - ⁴ “2011 Board of Health Meetings” DuPage County Health Department. Pg. 1
 - ⁵ “County Annual Financial Report” DuPage County. November 30, 2010. Pg. 59
 - ⁶ “FY 2011 Budget” DuPage County Health Department. Pg. 9
 - ⁷ “Five Year Business Plan, Executive Summary” DuPage County Health Department. 2010-2011 Pg. 2
 - ⁸ “FY 2011 Budget” DuPage County Board of Health. Pg. 5
 - ⁹ “Interview Notes” Interview Notes with Linda Kurzawa. November 29, 2011. Pg. 1
 - ¹⁰ “Five Year Business Plan, Executive Summary” DuPage County Health Department. 2010-2011 Pg. 20
 - ¹¹ “FY 2011 Budget(2) ” DuPage Board of Health. 2011. Pg. 8
 - ¹² “FY 2011 Budget” DuPage County Health Department. Pg. 19
 - ¹³ “Organizational Chart” DuPage Department of Health. September 9, 2011 Pg. 19
 - ¹⁴ “Interview Notes” Interview Notes with Linda Kurzawa. November 29, 2011. Pg. 2
 - ¹⁵ “Interview Notes” Interview Notes with Linda Kurzawa. November 29, 2011. Pg. 2
 - ¹⁶ “2011 Ext Audit” Various Regulatory Agencies
 - ¹⁷ “2011 Ethics, Benefits and Compensation Practices” DuPage County Board of Health. 2011. Pg. 117
 - ¹⁸ “Credit Card & Credit Card Policy” Email from Maureen McHugh. January 17, 2012 Pgs.1-2
 - ¹⁹ “Board of Health” DuPage County Health Department Website. January 15, 2012
<http://www.dupagehealth.org/board-of-health>
 - ²⁰ “Five Year Business Plan, Executive Summary” DuPage County Health Department. 2010-2011 Pg. 20

Century Hill Street Lighting District

Background

The Century Hill Street Lighting District (CHSLD) was established in the 1970s. The lights were originally installed by the subdivision builder in anticipation of the area being annexed into Naperville. This annexation never occurred and when the builder experienced financial difficulties, the builder turned off the power for the lights, and they were abandoned. An interested and dedicated group of homeowners organized a Street Lighting District to provide for the maintenance of the lights.¹ The District is the area of the Century Hill Subdivision, which contains 312 parcels of property.²

Enabling Statute

70 ILCS 3305/3 Street Light District Act: Allows for the formation of Street Lighting Districts in unincorporated areas by way of petition and vote.³

Board Composition

The board consists of three trustees that are not compensated and serve three-year terms. Per provided Board materials, Board meetings are scheduled as one annual budget approval meeting with special meetings called as needed.⁴

Financial Summary

The total amount levied by the District in 2010 was \$16,331.91 at a rate of .0384%.⁵ The District's total operating budget for 2010 was \$15,550.⁶ Expenditures vary greatly from year to year, but most of the expenditures are for pole maintenance and repair. Nearly all payments consist of:⁷

- ComEd for electricity
- Pinner Electric for maintenance of poles
- Bonding insurance (required by law)

Observations

The following observations are derived from interviews with the CHSLD, review of documents provided by the District, and best practice research,

Financial Analysis

- There is no external audit conducted because one is not required by law and it is too costly. Because of this, the District is lacking financial statements.⁸ The District does file an Annual Financial Report form with State of Illinois Office of the Comptroller.
- There is a potential for financial risk due to the age of the District's infrastructure. The 76 lights have been in place for 40 years.⁹
 - Pinner Electric has assured the District that the steel poles are in good shape. Some poles are concrete and may be in need of replacement in the coming years.
 - The District maintains a small reserve for individual pole replacement.
- Summarized Financial information is as follows:

Summary Statement of Net Assets

	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Current & Other Assets	5923	2,127	18,443
Capital Assets			
Total Assets	5,923	2,127	18,443
Long Term Debt Outstanding			
Other Liabilities			
Total Liabilities			
Invested in capital assets, net of related debt			
Unrestricted-Designated			
Unrestricted-Undesignated	5,923	2,127	18,443
Total Net Assets	5,923	2,127	18,443

Summary Statement of Activities

	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Property Taxes	15,817	15,168	14,715
Other Income	66	84	106
Total Revenue	15,884	15,252	14,821
General Government	1,267	1,010	1110
Transportation & Public Works	10,821	30,558	10,249
Total Expenditures	12,088	31,568	11,359
Excess of Revenues over (under) Expenditures	3,796	-16,316	3,462
Previous Year-end Fund Balance	2,127	18,443	14,982
Year-end Fund Balance	5,923	2,127	18,443

Sources:

- Information can be found in annual financial report submitted to the Illinois Office of the Comptroller.

2. Information is contained in the financial records provided by Century Hills for FY 2010, 2009 and 2008.

Organizational Efficiency

- The District has expressed difficulty finding volunteers to replace existing trustees. This may be due to a couple different factors:
 - Homeowners in the neighborhood are aging
 - There has been an increase in the number of homes that are rented and those owners/occupants may have a lower vested interest in maintaining the lights over the long term.¹⁰
- Street lights are maintained by Pinner Electric. Because very few companies provide this kind of maintenance, the District is limited in service options. They currently pay per call and have no standing contract.¹¹
- There are no employees of the Lighting District.¹²

Duplication of Effort/Service

- Lisle Township currently assists the District by changing bulbs.¹³

Procurement Methodology

- The District has no procurement policy in place.

Internal Controls

- The District does not have an ethics policy in place.
- Because the District retains no employees, they do not have:¹⁴
 - Organizational Chart
 - Salary Info
 - Personnel Policy

Transparency and Accountability

- The District does not have a website.
- Trustees periodically speak at Homeowner's Association meetings and notes are periodically placed in the Homeowner's Newsletter to remind homeowners of problem reporting procedures.¹⁵

Other

- The DuPage County Board has no involvement with CHSLD. The District is not included in the county CAFR and the trustees have the power to pass their own Levying & Assessing Ordinance and Budget and Appropriations Ordinance.
- The Century Hills subdivision is serviced by the following:¹⁶
 - Police protection: County
 - Fire: Naperville Fire Department
 - Water: Naperville
 - Sewage: Lisle sewage

- Private trash pickup
 - Set up by Lisle Township, but residents pay for their own

Operational Recommendation(s)

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Century Hill Street Lighting District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board members.

Implement Internal Controls Policies

- Create and implement procurement, ethics, and credit card policies.
- Create and build a reserve fund policy in anticipation of capital replacement.

While the District does not make major procurements frequently, as the infrastructure continues to age, there may be a need for larger procurements. Adopting these policies will ensure that the District has the proper internal controls in place when that time comes.

Structural Recommendation(s)

The following are recommendations apply to the long-term sustainability of the organization and may require structural change. In all cases, the County should engage homeowners in a collaborative process to discuss structural options.

Maintain District As-Is

- Maintain the current organizational structure while exploring the transparency recommendations above. While this offers no structural change, it sets operational standards and policies.

Maintaining the District as-is poses few problems. The District has no overhead, no contracts for any professional services, and the trustees are all volunteers. Some challenges may arise given the age of the infrastructure and the low reserves to handle major replacement.

Consider Consolidating Functions

- Consider facilitating an intergovernmental agreement for service between the District and Township.
 - Facilitate Discussions: Help facilitate discussions among residents of Century Hill and leadership of Lisle Township.
- Consider facilitating annexation of the District by municipality (Naperville).
 - Facilitate Discussions: Help educate & facilitate discussions among residents of Century Hills to explore annexation, its advantages/disadvantages, and other alternatives.

- Aid in annexation process: Provide assistance with surveying, legal, and other work associated with the annexation and application process.

Absorbing the District would remove a taxing body as well as relieve the County of any risk associated with the aging infrastructure. Absorption would also eliminate the need to continue recruiting volunteer trustees, and would enable the continuation of lighting for the subdivision. Before pursuing either of the above options, it is important to engage homeowners in a collaborative discussion to explore the advantages and disadvantages of each option.

Conclusion

The Century Hill Street Lighting District levies a tax to provide for the maintenance of street lights in the Century Hill subdivision. The District is very small with only \$15,884 in revenues in 2010; however, there is some potential risk given the age of the District's infrastructure.

We recommend that the District increase transparency and accountability through increased communication with the County Board and by posting meeting and other information on the County website. We also recommend the District implement policies over procurement and ethics. Furthermore, we recommend that the District work with its taxpayers to determine if the District will be better served through annexation or maintaining the District as is. The County does not have the power to force the District into any action, including annexation; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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- ¹ “Century Hill Street Lighting District Overview” Century Hill Street Lighting District. Pg. 1
 - ² “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.
 - ³ “Illinois Compiled Statutes: Special Districts (70 ILCS 3305/3) Street Light District Act.” Illinois General Assembly Website. Accessed January 4, 2012.
<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=979&ChapterID=15>
 - ⁴ “Century Hill Street Lighting District Overview” Century Hill Street Lighting District. Pg. 2
 - ⁵ “2010 Tax Extension Worksheets” DuPage County Clerk. 2010. Pg.34
 - ⁶ “Budget & Appropriations” Century Hills Lighting District. 2010 Pg. 1
 - ⁷ “Interview Notes” Interview with Tom Cieslak. November 22, 2011 Pg. 1
 - ⁸ “Century Hill Street Lighting District Submittal Cover Letter” Thomas Cieslak. 2011. Pg 1.
 - ⁹ “Interview Notes” Interview with Tom Cieslak. November 22, 2011 Pg. 1
 - ¹⁰ “Interview Notes” Interview with Tom Cieslak. November 22, 2011 Pg. 1
 - ¹¹ “Interview Notes” Interview with Tom Cieslak. November 22, 2011 Pg. 1
 - ¹² “Cover Letter” Tom Cieslak. 2011 Pg. 1
 - ¹³ “Interview Notes” Interview with Tom Cieslak. November 22, 2011 Pg. 1
 - ¹⁴ “Cover Letter” Tom Cieslak. 2011 Pg. 1
 - ¹⁵ “Century Hill Street Lighting District Overview” Century Hill Street Lighting District. Pg. 2
 - ¹⁶ “Interview Notes” Interview with Tom Cieslak. November 22, 2011 Pg. 1

DuPage County Election Commission

Background

In 1974, Illinois House Speaker William Redmond saw an opportunity to bring bi-partisan oversight of elections to DuPage County by enabling commissions at the county level. The Commission is responsible for all federal, state, county, and local elections occurring within DuPage County.¹ The Commission is also responsible for training and certifying judges of election, redistricting of precincts, and the voter registration program.²

The Election Commission employs approximately 24 full-time employees as well as additional part-time and seasonal help.³

Enabling Statute

10 ILCS 5/6A Election Code: Allows for the formation of a county-wide Election Commission under the same Act that provides for election commissions in cities, villages, and incorporated towns. Formation may be by ordinance of the County Board or by vote of the electors.⁴

Board Composition

The Board consists of three trustees that serve three-year terms. Trustees must be a resident of the State of Illinois for the previous two years. All election commissioners must be legal voters residing in DuPage County. No more than two election commissioners may be from the same political party. No commissioner may hold any other political office.⁵

The chairman receives \$27,500 annually while the vice-chairman and secretary receive \$27,500 annually plus health insurance.⁶ Per provided Board materials, Board meetings are scheduled for the second and fourth Tuesday of each month.⁷

Financial Summary

Although the Commission has the legal ability to levy a tax, they receive appropriations from the County's general fund. In 2012, the amount appropriated was \$6,024,509 (higher than the previous year's appropriation due to the election year activities).⁸

Observations

The following observations are derived from interviews with the Election Commission, review of documents provided by the Commission, and best practice research.

Financial Analysis

- The Election Commission has no stand-alone financial statements because they are included in the County's Annual Financial Report.
- The Election Commission is included as a Department of the County's General Fund. Based on the County's FY 2012 budget, Personnel costs represent approximately 29% and contractual services represent approximately 67% of the Commission's total budget of approximately \$6 million. The FY 2012 budgeted amounts increased by almost \$1.2 million from FY 2011 budgeted levels. Personnel costs increased by approximately 8%, Commodities increased by approximately 75% and Contractual Services increased by approximately 32% from FY 2011 to FY 2012. These increases are due to expected additional costs for the 2012 election.

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Summary financial information for the Election Commission can be found in the following table from the FY 2012 DuPage County Budget:

	FY2009 Expenditures	FY2010 Expenditures	FY2011 Current Budget	FY2011 Estimated Expenditures	FY2012 Approved Budget
Personnel	\$1,524,061	\$1,631,317	\$1,610,764	\$1,624,764	\$1,736,291
Commodities	\$553,356	\$149,245	\$135,500	\$134,552	\$237,425
Contractual Services	\$2,481,658	\$3,322,557	\$3,072,773	\$3,060,944	\$4,050,793
Capital Outlay	\$26,320	\$16,172	\$9,748	\$0	\$0
Total	\$4,585,395	\$5,119,290	\$4,828,785	\$4,820,260	\$6,024,509

Source: DuPage County Budget for fiscal year ended November 30, 2012.

- The financial data available does not allow for a detailed analysis of costs and opportunities to achieve organizational efficiency. Many County Departments provide more information within the County's Annual Budget to explain accomplishments, goals, initiatives, and staffing. The Commission, however, did not provide such information.
- Commission costs are cyclical in nature based on the election cycles and the unique needs for equipment and supplies to conduct elections. The election cycles make some cost comparisons more difficult to evaluate for potential cost savings. However, certain personnel, commodity, and contractual services can be considered for potential shared services that could result in cost savings.

Organizational Efficiency

- Staffing needs of the Election Commission are based on past trends. The Commission has approximately 24 full-time employees as a base number, but changes in policy and regulations, such as the new bilingual needs, may affect this number. Some staff provide cross support in the warehouse and storage and some aid in testing of the equipment. Any influx, such as that seen during election years, is handled with seasonal help.⁹
- The Commission uses bi-partisan teams for testing and training in order to maintain the Commission's mission of independence.¹⁰
- Digital equipment allowed for combining precincts into voting centers which achieved the following efficiency measures:¹¹
 - Achieved 2 to 1 combination of precincts so that the County now has 336 voting centers with 748 precincts.
 - Combined voting centers cut the number of judges required to operate the voting centers.
 - Since 2006, the Commission has saved approximately \$5 million on equipment, facilities, judges, etc. from the reduction of voting centers.¹²

Duplication of Effort/Service

- The mission of the Board of Election Commissioners is guided by Illinois State Statute. However, some overlap does occur between the Commission and the County in administrative roles such as Procurement, Finance, Human Resources and Information Technology (IT).¹³ The Commission procures goods and services, performs certain financial

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Assessment of Boards and Commissions

record keeping functions and hires personnel. The County has departments that provide these services county-wide, therefore, there is likely to be opportunities for the functions to be more cost efficient through a shared/contracted services model with other County Departments.

Procurement Methodology

Procurement is defined as the acquisition of goods or services. It is favorable that the goods/services are appropriate and that they are procured at the best possible cost to meet the needs of the purchaser in terms of quality and quantity, time, and location. Public bodies define processes intended to promote fair and open competition for procurement while minimizing exposure to waste, fraud and abuse. The scope of our analysis was to review the Commissions Procurement Policy by comparing it to the County's Procurement Policy and to select and review a subset of Commission contracts. Our review of contracts centered around compliance with the Commission's Procurement Policy.

The items described below represent the results of our comparative study of Commission contracts:

- The Commission maintains a procurement policy that has been submitted and is on file with the County in accordance with ordinance OCB-001-11. Upon review, we found that the Commission's policy was inconsistent with the County's policy because the Commission's policy did not have information regarding the following items:
 - Bid security / bonding requirements
 - Insurance requirements for contractors
 - Record retention for contractors
 - Authorization for the use of electronic transmissions
 - Bid and/or request for proposal document addenda and questions
 - Communication with bidders/offerors
 - Placement of purchasing items on agendas
 - Public access to procurement information
 - Provision for emergency procurements
 - Cooperative joint purchasing
 - Provision for County auditor to audit contractor books and records when related to a contract
 - Change order and contract modification procedures
 - Term limit and full disclosure of price for multi-year contracts
 - Contract renewal procedure
 - Declaration of non-responsibility procedure
 - Guidance for review of the procurement policy
- Crowe reviewed thirteen (13) contract files of the Election Commission (see Appendix). Our review was based on the Commission's Procurement Policy. We found that 12 of 13 contract files did not contain all documentation in accordance with the Commission's procurement policy or with best practices. Subsequent to our discussions with Commission staff about missing documentation, the Commission was able to provide some additional information to address missing procurement file documentation. We noted, however, the following items during our review that were not resolved through subsequent documentation and conversations:
 - Two of the thirteen files did not contain a Contract to support the goods or services to be provided. In these instances, the Commission issued purchase orders to replace expired contracts instead of entering into new contracts.
 - Twelve of the thirteen files did not have sufficient documentation to support that the procurement process was followed or that proper exceptions to the policy were granted by authorized personnel or the Commission. There was no or limited documentation

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Assessment of Boards and Commissions

available to support the procurement process followed by the Board or how the procurement decisions were made. Without documentation of the procurement decisions, there is not sufficient information to conclude that the procurement policy was followed.

- In one instance, Commission staff was able to provide two quotes from a real estate agent; however, the procurement policy states “bids shall be received and opened through a public bid opening,” for this type of purchase.
- The Commission entered into contracts that did not disclose that the prime contractor was using subcontractors. Best business practices dictate that subcontractor relationships should be disclosed within the prime contract. In addition, if there are pass-through of costs allowable mark-ups should be included within the prime contract to determine that the mark-ups or up charges by the prime contractor are reasonable.
- Goods and services were provided by contractors that were not clearly defined within the contract or purchase orders. For instance, batteries were provided by a contractor without clear delineation in the contract or purchase order that such goods were going to be provided. Contracts and purchase orders should include the description of specific goods or services that are provided and the cost of those items provided in accordance with best business practices.
- Pursuant to discussions with Commission personnel, it was noted that contract renewals did not always go through the procurement process covered by their policy. Commission management indicated that the goods and services that they buy and secure are highly specialized and that the Commission makes the decisions regarding contract renewals based on their historical experience with the contractors. In addition, Commission management indicated that there are a limited number of vendors to choose from for some of these goods and services. The Commission’s Procurement Policy does allow that, “Certain contracts, which by their nature, are not adaptable to award by competitive bidding, such as contracts for services of individuals possessing a high degree of professional skill, or where the ability or fitness of the individual plays an indispensable role.” However, specific documentation was not provided by the Commission to support non-competitively procured contracts for various goods and services. The Commission’s policy requires documentation of purchases be prepared including: memorandum requests for goods and/or services, quote specifications, Executive Director Approval and written quote(s). If a sole source procurement is determined to be in the best interest of the Commission it should be documented in a Decision Memo or other form of communication, in accordance with best practices and as contained in the County’s Procurement Policy. The Commission’s policy does not include guidelines for such negotiations. Best practices suggest contract renewals should be rebid, periodically, or documentation of the reasons for non-competitive renewals should be justified.

Internal Controls

- The Commission does have an ethics policy. Upon review, we found the following areas of inconsistency with the County’s ethics policy:
 - Ethics training requirement
 - Contractor disclosure
 - Board disclosure
 - Conflict of interest
 - Future employment
 - Former employment relationships
 - Compliant filing process

We provided recommendations to the Commission to address the inconsistencies noted above, and the Commission staff revised its ethics policy accordingly. During a meeting with the Election Commission’s management, staff and their Attorney on April 18, 2012, the

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Assessment of Boards and Commissions

Commission presented a draft Ethics Ordinance that, if adopted, will address all of the items above.¹⁴

- While the Commission's proposed Ethics Ordinance does address the complaint filing process, it was noted that in practice, many complaints are submitted directly to Election Commission Management. More education of the public on the proper submittal of complaints may be needed to create a process that is both independent and anonymous.
- The Commission does have a credit card and provided a copy of their credit card policy.

Transparency and Accountability

- The DuPage Board of Election Commission has a website (<http://www.dupageelections.com>) where they post information regarding the Commission, including the mission statement, meeting schedule, meeting agendas and minutes, public comment forms, policies, and recent news articles.¹⁵
- The Commission requires that anyone wishing to speak at Commission meetings submit a public comment form prior to the meeting. Only individuals who submit a public comment request prior to the start of the meeting are allowed to speak.¹⁶ Commission meetings are held in the Election Commission's office and require that attendees be escorted to the meeting room upon arrival. These aspects of the Commission meetings may hinder transparency, making it difficult for public input and attendance.

Other

- The Board of Election Commission did not provide detailed salary information in its submission to the County pursuant to County Ordinance OCB-001-11. However, the Commission did provide the following information to the County:
 - Organizational Chart
 - Personnel Policy – The Commission's Personnel Policy was revised and adopted by the Board of Commissioners on April 10, 2012. Revisions of the Commission's Personnel Policy were related to sick, personal, vacation and compensatory time.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Increase Transparency and Accountability

- Provide regular communication to the public and County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Board of Election Commissioners and DuPage County to improve communication, share information and best practices, etc.
- Remove the requirement that public comment forms be submitted prior to Commission meetings in order for public attendees to speak.
- Commission Meeting Minutes should include corresponding attachments which support the actions taken by the Commission at the meetings. For instance, contracts, decision memorandums, financial statements, etc.
- Hold board meetings in a more accessible County conference room to facilitate public attendance.

DuPage County

Assessment of Boards and Commissions

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members, as well as any employees on staff.

Procurement Practices

- We recommend that the Commission follow sound business practices and its procurement policy for the purchase of goods and services. In particular, we recommend the following practices be observed:
 - Contracts should periodically be subjected to open requests for proposals and quotes following guidance in the procurement policy.
 - The Commission should maintain complete and accurate contract files that document decisions regarding the procurement of goods and services.
 - The Commission should issue contracts for goods and services with prime contractors and the contracts should indicate whether subcontractors are allowed. Disclosure of subcontractors should also be included within the Commission's contracts. Appropriate and reasonable mark-up for goods and services provided by the subcontractor should also be disclosed within the prime contracts, if applicable.
 - The Commission should specifically identify the goods and services provided within each contract and purchase order. Clarification of the goods and services protects both the Commission and the contractor from misunderstandings and potential service delivery issues.
- We further recommend that the Commission review all current contracts for compliance with procurement and best practices and determine that current terms and conditions of the contracts are appropriate.

Procurement policies are intended to protect the Commission and ultimately the taxpayers from inefficiencies in costs and to ensure the delivery of goods and services in accordance with the contracts. An environment of open procurement promotes competition, documents that market prices were received and that an objective evaluation of qualifications of providers was performed. In addition, following a formal procurement process provides greater accountability and transparency to the public.

Pursue Operational Efficiencies

- We recommend that the Commission and the County perform detailed analysis of potential cost savings in personnel, commodities, and contractual services.
- Explore shared or contracted services with the County for Procurement, Finance, Human Resources and IT services.

It is recommended that the Commission, in collaboration with the County, perform a detailed analysis of potential cost savings in personnel, commodities and contractual services. In addition, the Commission should consider issuing requests for proposals for commodities and services to determine if better costs can be received due to current economic conditions through competitive bidding. Because procurement, finance, human resources and IT functions are being performed by the County, the Commission may find cost efficiencies by leveraging the County's experience in these areas.

Implement Internal Controls Policies

Procurement Policy

In order to more fully align the Election Commission's procurement policy with DuPage County's procurement policy, we recommend that the Board of Election Commissioners **add** the following information to its procurement policy:

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- Bid security / bonding requirements
- Insurance requirements for contractors
- Record retention for contractors (recommended 3 years from final payment)
- Authorization for the use of electronic transmissions
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Placement of purchasing items on agendas
- Public access to procurement information
- Provision for emergency procurements
- Cooperative joint purchasing
- Provision for County auditor to audit contractor books and records when related to a contract
- Change order and contract modification procedures
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy (recommended every 5 years)

Procurement Files

We recommend the Commission maintain full procurement files that include the vendor contract, bids, and any other supporting documentation. This may include meeting minutes, requests for proposals, certification/justification of sole source, etc.

Ethics

We recommend that the Election Commission continue with the adoption of the proposed ethics ordinance that addresses all of the items previously noted.

While the Commission's proposed Ethics Ordinance does address the complaint filing process, it was noted that in practice, many complaints are submitted directly to Election Commission Management. We recommend the Commission discuss options for submitting complaints that are independent from the Commission. We also recommend the Commission engage in more education of the public on the proper submittal of complaints. We further recommend that the Commission clearly provide the ability for persons to report ethics complaints on its website.

Credit Cards

The Election Commission does use credit cards and has a credit card policy in place; however, we are making recommendations for the improvement of the internal controls surrounding their use. We recommend that the Commission review all credit card usage in compliance with best practices. We also recommend that the Commission enhance its policy by adding the following information:

- Names of the authorized credit cards
- Names of positions authorized to have credit cards. Credit cards should only be issued to employees with a reasonable need for use.
- Board members are not considered employees with an appropriate need for use of credit cards.

Adopting these policies will help the Board of Election Commissioners strengthen internal controls and establishes a formal standard of conduct for Commission members and employees.

Structural Recommendation

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

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Continue to examine reducing the number of precincts

Although the Board of Election Commissioners has already achieved a two to one reduction in precincts, they are legally allowed to pursue a four to one reduction.¹⁷ Section 24A-3.1 of Illinois Election Code provides that when an electronic voting system is used, the County Board or Board of Election Commissioners may combine precincts such that the number of registered voters does not exceed 800.¹⁸ This is further driven by the increase in early voting in DuPage County. The combination of precincts creates an opportunity for additional cost savings by reducing the number of voting judges, facilities, etc.

Conclusion

The Board of Election Commission serves a vital role in the federal, state and local election process for the County. They oversee elections, train and certify election judges, redistrict precincts, and register voters. While the Commission's role within the County centers around elections, there appears to be an overlap of administrative roles with County-wide administration, including: Procurement, Finance, Human Resources and Information Technology functions. Since the County performs these same roles for multiple departments and agencies within the County, opportunities for shared or contracted services with the Commission can provide cost efficiencies to the taxpayers of the County. Such sharing of roles will provide the Commission with the ability to focus on their core role within DuPage County.

The Commission also needs to make significant improvements in its internal control procedures and practices. Procedures surrounding its credit card, ethics and procurement policies must be improved to provide safeguards over County assets. The Commission should enhance its credit card policy by disclosing the authorized cards and Commission staff that are allowed to use credit cards. The Commission's Ethics Policy did not contain key elements that are found in the County's Ethics Policy and in best practices. The Commission should immediately adopt an improved ethics policy consistent with the County's policy to provide internal controls surrounding Commission personnel. Finally, the largest area of internal control improvement relates to the Commission's contracting practices. The Commission should improve its procurement policy, document decisions made through contract file maintenance and implement practices to provide a more open procurement process. The Commission failed to follow its own Procurement Policy in 12 of 13 contracts that we reviewed (see Appendix). Deficiencies consisted of incomplete file documentation, lack of competitive bidding, failure to disclose subcontractors, and lack of disclosure in the contract of the nature and of goods or services to be provided. In order to safeguard County assets and ensure the integrity of the procurement process we further recommend that the Commission review all current contracts for compliance with the procurement policy and best practices.

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¹ “About the Commission” DuPage County Election Commission. 1/10/12

<http://www.dupageelections.com/pages.asp?pageid=208>

² “DuPage Board of Election Commissioners” DuPage County. 1/10/12.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/29497/

³ “Personnel Roster” DuPage Election Commission. 2011. Pgs. 1-2

⁴ “Illinois Compiled Statutes:(10 ILCS 5/6A) Election Code-County Board of Election Commissioners.” Illinois General Assembly Website. Accessed January 4, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=001000050HArt%2E+6A&ActID=170&ChapterID=3&SeqStart=29700000&SeqEnd=30500000>

⁵ “DuPage Board of Election Commissioners” DuPage County. 1/10/12.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/29497/

⁶ “DuPage Board of Election Commissioners” DuPage County. 1/10/12.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/29497/

⁷ “Meeting Schedule 2011” DuPage Election Commission. Pg. 1

⁸ “fy2012 Budget” DuPage County Election Commission. Pg. 4

⁹ “Interview Notes” Interview with Bob Saar and Donna Morrison. December 2, 2011. Pg. 3

¹⁰ “Interview Notes” Interview with Bob Saar and Donna Morrison. December 2, 2011. Pg. 3

¹¹ “Interview Notes” Interview with Bob Saar and Donna Morrison. December 2, 2011. Pg. 3

¹² “Voting Centers & Precincts” Email from Donna Morrison. March 15, 2012.

¹³ “1-12 Organizational Chart” Board of Election Commissioners. January 2012. Pg. 1

¹⁴ “Draft Ethics Ordinance” Provided by Pat Bond in Meeting with Election Commission. 4/18/12

¹⁵ “About the Commission” DuPage County Election Commission. 1/10/12

<http://www.dupageelections.com/pages.asp?pageid=208>

¹⁶ “Board Meetings” DuPage County Election Commission. 1/10/12

<http://www.dupageelections.com/pages.asp?pageid=208>

¹⁷ “Interview Notes” Interview with Bob Saar and Donna Morrison. December 2, 2011. Pg. 3

¹⁸ “Election Code” Illinois General Assembly. January 23, 2012

<http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=001000050HArt.+24A&ActID=170&ChapterID=3&SeqStart=79600000&SeqEnd=82400000>

DuPage Emergency Telephone System Board

Background

The DuPage Emergency Telephone System Board DuPage (ESTB) was established by referendum in 1989 to oversee the Enhanced 9-1-1 systems for citizens of the County of DuPage and portions of Cook, Kane and Will counties, excluding the Village of Burr Ridge and City of Naperville. Burr Ridge and Naperville established their own Emergency Telephone System Boards.¹ The DuPage ETSB is the largest county ETSB in Illinois.² According to its Strategic Planning Report, the DuPage ETSB takes responsibility for the following services:³

- Implementation of 9-1-1 at all dispatch agencies countywide, including portions of Cook, Kane and Will Counties
- Providing Automatic Number Identification (ANI); Automatic Location Identification (ALI); and selective routing for all 9-1-1
- Coding all addresses into the master street address guide for maintenance of the 9-1-1 system
- Providing a computer aided dispatch system for all dispatch agencies to assist with dispatching service to 9-1-1 police, fire and EMS emergencies
- Collecting, budgeting, appropriating and expending 9-1-1 landline surcharge fees and wireless surcharge fees
- Maintaining all call handling agreements with adjacent jurisdictions and filing the mandatory Illinois commerce Commission regulatory filings on an annual basis
- Providing 9-1-1 telephones and logging recorders to all the dispatch agencies to receive and dispatch 9-1-1 calls
- Implementation of a countywide records systems and jail management system integrated into the 9-1-1 system, each dispatch agency, the county jail and the DuPage County Circuit Court Clerk DUCS system
- Construction and maintenance of a high speed data network that connects all police agencies through the network to the computer aided dispatch systems
- Maintenance of an asset inventory and depreciation schedule in compliance with the government accounting standards board
- Conducting an annual audit by an outside auditor
- Improving the quality of 911 services through cost sharing with user agencies to provide efficient and effective technology solutions for the delivery of public safety emergency services

Enabling Statute

50 ILCS 750/15 Emergency Telephone System Act: Section 15 establishes a monthly network connection surcharge and the ability to create by referendum an emergency telephone system board with the duties of planning a 9-1-1 system; coordinating and supervising the implementation, upgrading, or maintenance of the system, including the establishment of equipment specifications and coding systems; receiving moneys from the surcharge imposed, and from any other source, for deposit into the Emergency Telephone System Fund; authorizing all disbursements from the fund; hiring any staff necessary for the implementation or upgrade of the system; and participating in a Regional Pilot Project to implement next generation 9-1-1.⁴

Board Composition

The Board consists of seven members and a chairman that are not compensated financially. The representatives consist of one member from each of the following: DuPage County Board (currently serving as Chairman of the ETSB Board), DuPage Mayors and Managers Conference, DuPage Fire Chief's Association, DuPage Chief of Police Association, DuPage County Sheriff's Office, DuPage Public Safety Communications (DU-COMM), Office of Homeland Security and

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Emergency Management, and a DuPage County citizen representative. The chairman serves two-year terms and each of the other members serves three-year terms. They hold board meetings at 2:00 p.m. on the 2nd Thursday of the month at the DuPage County Administration Building, Room 3-500B.⁵

Financial Summary

ETSB is funded primarily by telephone surcharges. There is a 50 cent (\$0.50) surcharge per wireline (landline) telephone network connection for residents within the area where the referendum was approved - DuPage County and portions of Cook, Kane and Will counties. Also, pursuant to 50 ILCS 751 Wireless Emergency Telephone System Act, there is a 73 cent (\$0.73) surcharge per wireless network connection for all Illinois residents. The surcharge is remitted by the wireless carriers to the State of Illinois. The Illinois Comptroller, based on zip codes, disburses 58 cents (\$0.58) per wireless network connection to ETSB on a monthly basis.⁶ The Wireless Emergency Telephone System Act and surcharge is scheduled to sunset on April 1, 2013.⁷

Wireline and Wireless monies are kept in separate funds. For fiscal year 2012, ETSB expenditures were appropriated the following for the two funds:⁸

- 911-950 Wireline \$4,755,466
- 911-960 Wireless \$26,349,606

Wireline and Wireless revenues are accounted for in separate funds. For fiscal year 2012, ETSB revenues were expected to be as follows:⁹

- 911-950 Wireline \$2,250,000
- 911-960 Wireless \$5,000,000

Expenditures were expected to be higher than anticipated revenues because available beginning of year cash balances were to be used to fund expenditures in FY 2012 to pay for the new radio network. As a component unit of DuPage County, the ETSB board approves the budget, and it is sent to the DuPage County Board for approval. The DuPage County Board does not have the ability to amend the budget.¹⁰

Observations

The following observations are derived from interviews with the ETSB, review of documents provided by the Board, and best practice research.

Financial Analysis

The financial analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data. The District operates on a November 30 fiscal year end. The latest audited financial statements are for the year ended November 30, 2010, dated March 29, 2011. The November 30, 2011, audited financial statements are expected to be available soon.

The Emergency Telephone System Board (ETSB) has experienced declining revenues over the past 3 fiscal years of approximately \$2.5 million. During this same period of time, the ETSB has also reduced expenditures by about \$2 million. Since revenues have been higher than expenditures each of the past 3 years, the unrestricted net assets have increased from \$27.7 million to \$36.2 million or a 31% increase. While the ETSB has been able to control the financial condition and maintain reserves, there is a matter for further consideration:

- The trend of declining revenues in an industry expected to be relatively inelastic presents a degree of concern. To date, ETSB has been able to reduce its expenditures as revenues

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declined. Going forward, these reductions may not be as feasible. The ETSB has sufficient unrestricted net assets to cover several years of operating expenditures (excluding capital outlays). **However, the sunset clause of the telecommunications act will need to be extended in order to ensure the long-term financial viability of the ETSB.**

- Financial statements for the year ended November 30, 2012, are expected to reflect significant changes from those statements summarized below. Capital Assets investment balances will change significantly as the ETSB invested in new equipment that will include 9-1-1 telephone equipment for the public safety answering points (PSAPs), computer aided dispatch (CAD) system, and a county-wide radio system. Therefore, the net assets are expected to increase from November 30, 2011 levels to reflect these investments.¹¹

Summary Statement of Net Assets

	Nov. 30, 2010	Nov. 30, 2009	Nov. 30, 2008
Assets			
Current Assets	36,641,645	32,720,897	27,761,140
Capital Assets, not depreciated construction in progress	3,093,280	3,093,280	2,726,102
Capital Assets, net of accumulated depreciation	842,975	1,346,100	2,624,918
Total Capital Assets	3,936,255	4,439,380	5,351,020
Total Assets	40,577,900	37,160,277	33,112,160
Liabilities			
Current Liabilities	402,025	420,168	64,512
Noncurrent Liabilities	8,192	-	-
Total Liabilities	410,217	420,168	64,512
Fund Balances			
Reserved for Prepaid Items	-	-	-
Unreserved	-	-	-
Total Fund Balances	-	-	-
Total Liabilities and Fund Balances	410,217	420,168	64,512
Net Assets			
Invested in Capital Assets	3,936,255	4,439,380	5,351,020
Unrestricted	36,231,428	32,300,729	27,696,628
Total Net Assets	40,167,683	36,740,109	33,047,648

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Summary Statement of Activities

	Nov. 30, 2010	Nov. 30, 2009	Nov. 30, 2008
Revenues			
Surcharge Fees	7,801,479	8,558,327	9,616,429
Interest	70,501	259,815	705,107
Miscellaneous	20,098	12,575	151,105
Total Revenues	7,892,078	8,830,717	10,472,641
Expenditures			
Current			
Public Safety	3,230,298	3,755,159	3,781,291
Capital Outlay	719,378	471,457	2,232,997
Total Expenditures	3,949,676	4,226,616	6,014,288
Change in Fund Balance	3,942,402	4,604,101	4,458,353
Depreciation	(531,974)	(1,383,097)	(1,709,629)
Adjustments			
Adjustment for Capitalized Assets	28,849	471,457	-
Adjustment for Compensated Absences	(11,703)	-	-
Adjustment for Capital Outlay	-	-	2,232,997
Change in Net Assets	3,427,574	3,692,461	4,981,721
Net Assets, Beginning of Year	36,740,109	33,047,648	28,065,927
Net Assets, End of Year	40,167,683	36,740,109	33,047,648

Sources:

1. ETSB FY 08 Component Unit Annual Financial Report
2. ETSB FY 09 Component Unit Annual Financial Report
3. ETSB FY 10 Component Unit Annual Financial Report

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Organizational Efficiency

- Prior to a State’s Attorney’s opinion issued in 2008, the ETSB was managed independently from DuPage County. While our review did not focus on the activities of the ETSB prior to this opinion, it was apparent from our brief review that the operations of the Board (procurement, employment, etc.) at that time would not have met the standards or procedures of DuPage County. After the opinion was issued, the Board was reconstituted. Today, the ETSB operates like a component unit of the County. The ETSB chairman is currently a DuPage County Board member.¹² ETSB leverages County services, such as the County Auditor and the County Procurement Department, for both efficiency and oversight.¹³
- When the Board was reconstituted, it outlined that 7 of the 8 board members would have 3-year terms.¹⁴ Because these members were appointed at the same time, their terms will expire at the same time. The next class of board members will also have terms expiring simultaneously.¹⁵ Because nearly all of the board members turn over at the same time, there may be a gap in institutional knowledge.
- Currently the ETSB retains 5 paid, full-time employees and one part-time employee. Salaries will total \$413,100 for FY2012.¹⁶ Salaries totaled \$405,000 for FY2011.¹⁷ FY2011 saw a 6.71% decrease from FY2010.¹⁸ In addition, the ETSB has 3 positions that are funded by DU-COMM.
- One of the priorities of the Executive Director has been to remedy the disparate distribution of surcharge revenue between Public Service Answering Points (PSAPs), and to encourage the PSAPs to work more as one system.
- According to ETSB’s strategic report, “the fewer PSAPs that have to be maintained, the more cost effectively the surcharge funds can be managed. However, since DuPage ETSB cannot financially pay for all services related to 9-1-1 dispatch, specifically personnel, the ETSB Board has deferred from making unfunded mandates.”¹⁹
- Over the past 3 years, there have been several consolidations of PSAPs, from twenty to ten. There are also plans for several more to consolidate in the next year. As an incentive, the ETSB instituted a consolidation policy that outlines what ETSB can reimburse an agency for consolidation costs allowed under state statute. Part of this policy indicates that prior to approval of its Radio Detailed Design Review (DDR), any agency that seeks to terminate its obligation as a Hosting Agency and migrate to a consolidated center must notify the DuPage ETSB in writing. All actual and ancillary expenses related to the purchase, installation, operation or support of console equipment that cannot be reused or reallocated within the system will be deducted from any approved reimbursable expense.

Duplication of Effort/Service

- Frequently other ETSBs operate as a “pass through” organization that only disburses funds from the 9-1-1 surcharges. In the case of the DuPage ETSB, the Board owns more infrastructure and equipment and is more involved in the operation of the 9-1-1 system.²⁰ Other ETSBs that are not involved in operations rely more heavily on the beneficiaries of their funds to hire staff, maintain the infrastructure, and provide services related to 9-1-1. This makes the DuPage ETSB more vulnerable to the possible sunset of the Wireless Emergency Telephone System Act.
- ETSB staff consists of 6 paid positions:²¹
 - Executive Director, 911 System Coordinator
 - Financial Services Administrator (part-time)
 - Administrative Assistant
 - System Analyst 1
 - System Analyst 2

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- GIS Coordinator

The County IT Department employs systems analysts and GIS staff. If the nature of these roles is similar, there may be an opportunity for a shared or contracted service agreement between ETSB and County IT.

- ETSB also includes 3 positions on its organizational chart that are funded by DU-COMM (the largest PSAP in DuPage County):
 - MSAG IT Manager
 - System Analyst 2
 - GIS Coordinator (part time)

Procurement Methodology

- The ETSB's by-laws require that they follow the County's procurement policy and any policies put in place by ETSB that do not conflict with the policy of the County. The by-laws outline the following differences in regard to procurement:²²
 - Where action of the County Board Chairman is expressed, the Chairman of the Emergency Telephone System Board shall act
 - Where action of the County Purchasing Manager is expressed, the ETSB Purchasing Manager shall act
 - Where the County Chief Financial Officer is expressed, the ETSB Chief Financial Officer shall act
 - The Decision Memo procedure shall be followed, but no approval by the County Finance Committee shall be required
- Prior to the reconstitution of the Board and adoption of the new by-laws in 2008, ETSB was not considered a part of DuPage County, and the procurement policy for DuPage County was not followed. Since then, ETSB has been working to re-integrate DuPage ETSB in to the DuPage County procurement system.²³
- Prior to the change in administration in 2009, County policy was not followed; contracts were renewed without bidding and often through email. In addition, record keeping with respect to contracts was inconsistent. Often the only copies of existing contracts that current staff could locate were from minutes of meetings.²⁴ ETSB staff has been working to find the necessary documentation for all prior procurement files. Because ETSB has many existing contracts that cover a multiple year time period, often they will discover gaps in the procurement documentation at the time of the contract renewal.²⁵
- In order to assess ETSB's procurement process, Crowe selected and reviewed thirteen (13) Procurement documentation files from ETSB. Crowe utilized an ETSB procurement list to select the procurements for review. ETSB used this document to track work in progress and to build a history of past purchases and contracts. Crowe's review was based on DuPage County's Departmental Guide to Procurement document. Crowe reviewed files from 2009 to the present with the understanding that some files from 2009 would not be as complete as more current files because ETSB was in the process of changing to the County's procurement policy and has not been able to recover all documentation from earlier procurements. We noted the following:
 - One purchase (10/17/2011) was documented as a professional services contract. However, based on the description of the purchase, the purchase type should have been construction and services. ETSB treated the purchase as professional services and as a result only solicited 2 proposals, in accordance with the procurement requirements for

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professional services. The procurement, however, should have followed the procurement requirements for construction and related services, requiring the solicitation of Formal Sealed Bids. As a result, this purchase order was not approved by County Procurement Services. The purchase has been resubmitted and published as DuPage County Bid 12-013, opened February 13, 2012. This is a successful example of how ETSB relies on procurement for review and due diligence with respect to County Policy.

- Three (3) of the thirteen files (Contract initiation dates 4/9/2009, 12/10/2009 and 12/13/2010 respectively) did not have a copy of Western State's Contracting Agreement (WSCA) to support the agency's decision to solely source the selection of the vendor. ETSB did not include WSCA agreement paperwork as part of the procurement documents, because County Procurement Services routinely double checked this information upon submission and prior to approval. While State of Illinois contracts and WSCA contracts are available online, maintenance of documentation in the procurement should be maintained in the files pursuant to the County's policy. During initial discussions, it was noted that ETSB had changed procedures during the past year to ensure that procurement documentation was submitted and maintained as per County's procurement policy. No exceptions were noted for the files that related to 2011 procurements.
- In regard to one purchase (Contract initiation date 6/10/2010) for professional services, it was noted, based on the Departmental Guide to Procurement, the purchases would have required request for qualifications/RFP from multiple vendors. Based on available documentation, the purchase seemed to be sole sourced; however, sole source justification documentation was not available within the file. County Procurement Services began entering ETSB purchase orders in the County's purchasing system in November 2010, in order to better track procurement reviews and documentation. We found during our procedures that ETSB had changed procedures during the past year to require procurement documentation be submitted and maintained as per County's procurement policy. No exceptions were noted for the files that related to 2011 procurements.
- It was also noted in interviews that during the last 6 months of 2011, the ETSB approved some procurements "pending County Procurement review." The Board reviewed these procurements in advance of County Procurement Services in order to accommodate ETSB's once monthly meeting schedule and extenuating staffing circumstances that existed in Procurement in the last half of 2011. If the County's Procurement Department were to find a problem with any of the procurements, then it would come back to the ETSB. This is not standard practice.²⁶

Internal Controls

Ethics

As an agency of the County, ETSB follows the County's ethics policy.

Credit Cards

As an agency of the County, ETSB does not have any credit cards in use.

Other

ETSB's organizational chart and salary information was submitted to the County in accordance with Ordinance OCB-001-11. ETSB follows the Personnel Policy of the County.

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Transparency and Accountability

- The DuPage Emergency Telephone System Board maintains information on two different websites, the DuPage County website (<http://www.dupageco.org/ETSB/>) and the DuPage Radio Project Website (<http://dupageradio.org/>). General information about the Board, by-laws, meeting agendas, and minutes are stored on the DuPage County site; whereas, information for stakeholders regarding ETSB's radio project is maintained on the Radio Project Site.

Other

- The ETSB has a significant contract with Motorola to replace the existing dispatch network with access to their STARCOM21 network. This contract, which has been amended via change orders numerous times, was originally executed via a sole source contract prior to the Board falling under DuPage County authority. Implementation of the network continues, but a number of logistical/technical items need to be resolved (permanent equipment shelters, equipment upgrades, etc.). Also, additional radio purchases/upgrades have been held up pending the extension of the State of IL STARCOM21 contract (which is the basis of all ETSB radio/console purchases).

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Provide more structure for County oversight and relationship to ETSB

- Continue monthly meetings between the County Procurement Department and the ETSB Financial Services Administrator to review upcoming and pending procurements.
- Leveraging recent efforts within Procurement and Accounts Payable, investigate other County departments that may provide assistance to ETSB, such as Human Resources, Finance, and Information Technology. Establish defined pathways of communication.
- Given the increasing technical nature of the ETSB's work, combined with the accelerating convergence of technology, DuPage County Information Technology should provide additional technical guidance and assistance to the ETSB. This will help to ensure compatibility of future 9-1-1 systems with County systems and networks.

As a component unit of the County, ETSB should adhere to the policies of the County. Establishing a stronger relationship between ETSB and the County will provide more guidance and accountability for ETSB in following these policies. Also, ETSB may be able to leverage many services of the County to gain greater efficiencies.

Explore Shared Service/Contracting Options

- Both the County IT Department and ETSB have systems analysts and GIS staff. With the goal to reduce head count and generate cost savings, the County and ETSB should investigate the overlap in the skills and duties of ETSB staff and County IT staff, which may prove to be an opportunity for ETSB to contract services from County IT.

Increase Transparency and Accountability

- Enhance communication to the public and County Board Chairman's Office.

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- Provide links and inform users on both of ETSB's websites (<http://www.dupageco.org/ETSB/> and <http://dupageradio.org/>) that additional information can be found on the other website.
- Consider consolidating all information from both of ETSB's websites into one website, or eliminate the DuPage Radio Project website at the close of the project and move all pertinent information to the County website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board members.

Structural Recommendations

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Introduce a bill that would continue the wireless surcharge

- Amend 50 ILCS 751 The Wireless Emergency Telephone System Act, such the wireless surcharge of 73 cents (\$0.73) continues beyond April 1, 2013.

As the use of landline phones decreases and the use of wireless increases, all ETSBs will become increasingly reliant on the surcharges from wireless phones. The DuPage ETSB is already much more dependent upon wireless surcharges than wired. Without these funds, the DuPage ETSB would not be able to provide 9-1-1 related dispatch infrastructure, equipment, and software. These costs would instead fall on each of the individual PSAPs, such as DU-COMM, the DuPage County Sheriff, and other local public safety entities.

Complete a contingency plan if the wireless surcharge is not extended

- As noted above, the wireless surcharge represents a significant portion of the ETSB budget. A contingency plan detailing the equipment/operational transitions necessary if the Act sunsets should be finalized.
- As part of the contingency planning discussed above, it would be beneficial to explore other operating structures to determine if a different structure would better fit the needs of the area as well as a different financial base. For example, as noted earlier, other ETSBs operate as "pass through" organizations that only disburse funds from the 9-1-1 surcharges; whereas, the DuPage ETSB owns more infrastructure and equipment and is more involved in the operation of the 9-1-1 system.²⁷

Stagger Board member terms

- Amend the By-Laws such that board members continue to serve 3-year terms, but terms begin at different times. At the time of the next appointments, this may require that two members serve 1-year terms, two members serve 2-year terms, and three members serve 3-year terms. The following terms for these members can return to 3-years in length. The Board Chairman may continue to serve a 2-year term.

By staggering the terms of the ETSB members, this will allow for more retention of institutional knowledge and more stability in the political make-up of the Board.

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Conclusion

Over the course of the last several years, the ETSB has made good strides in improving the integration and leverage between the Board and DuPage County. This includes utilizing County procurement personnel. The review of sample procurements supports improvement in this area, although there continues to be opportunities to improve on both efficiencies and compliance. ETSB appears committed to continuing to better integrate with County functions, as recent integration activities with Accounts Payable and improved consultation with Information Technology demonstrate. It will be important for ETSB to continue these efforts, particularly with Information Technology, as there will continue to be convergence in the technologies used by both the County and ETSB.

Financially, the ETSB is funded primarily by telephone surcharges. As a result of trends in telephone usage, this funding is critically dependent on a surcharge per wireless network connection for all Illinois residents, with 58 cents (\$0.58) per wireless network connection going to ETSB on a monthly basis based upon appropriate zip codes. The Wireless Emergency Telephone System Act is scheduled to sunset on April 1, 2013. If this occurs, ETSB will no longer be financially viable as it is currently operating. To sustain the long-term operations of the Board, The Wireless Emergency Telephone System Act and surcharge must be amended to continue beyond the sunset date. As this sunset date is less than one year away, it is also important that a parallel, formal contingency plan be created which details the equipment and operational transitions required if funding is eliminated. Given the number of public entities utilizing ETSB technologies (radios, consoles, SONET, etc.) this task becomes even more critical.

Finally, it is important that the new dispatch network, STARC0M21, be completed and fully implemented. While progress continues to be made, a number challenges remains to get the network fully functional. In light of the funding challenges described above, a full implementation prior to a possible sunset of wireless surcharge will be critical to the long-term strategy and operations of the ETSB.

DuPage County

Assessment of Boards and Commissions

¹ “DuPage County Emergency Telephone System Board Component Unit Annual Financial Report for the Year Ended November 30, 2010” DuPage Emergency Telephone System Board. March 29, 2011. Pg. 2.

² “Emergency Telephone System Board of DuPage County November 9, 2010 Presentation.” DuPage Emergency Telephone System Board. November 9, 2010. Slide 2.

³ “Strategic Report April 2010” DuPage County ETSB. April 2010. Pg. 2.

⁴ “Illinois Compiled Statutes: Local Government (50 ILCS 750/15) Emergency Telephone System Act.” Illinois General Assembly Website. Accessed January 20, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=741&ChapterID=11>

⁵ “ETS Board 2011 Meeting Schedule” Emergency Telephone System Board of DuPage County. Not Dated. Pg.1.

⁶ “DuPage County Emergency Telephone System Board Component Unit Annual Financial Report for the Year Ended November 30, 2010” DuPage Emergency Telephone System Board. March 29, 2011. Pg. 2.

⁷ “Illinois Compiled Statutes: Local Government (50 ILCS 751/) Wireless Emergency Telephone System Act.” Illinois General Assembly Website. Accessed January 20, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=742&ChapterID=11>

⁸ “Resolution ETS-052-11 Annual Appropriation Resolution for Emergency Telephone System Board of the County of DuPage, State of Illinois, for the Fiscal Period Beginning December 1, 2011 and Ending November 30, 2012.” Pg.1.

⁹ “Resolution ETS-052-11 Annual Appropriation Resolution for Emergency Telephone System Board of the County of DuPage, State of Illinois, for the Fiscal Period Beginning December 1, 2011 and Ending November 30, 2012.” Pg.1.

¹⁰ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

¹¹ Interview with Linda Zerwin of DuPage Emergency Telephone System Board. April 2, 2012.

¹² Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

¹³ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

¹⁴ “OCB-001A-09 Amending the ByLaws for the Emergency Telephone System Board” DuPage County. Nov. 9, 2010. Pg.5.

¹⁵ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

¹⁶ “ETSB Personnel Roster” DuPage County ETSB. 2012. Pg. 1.

¹⁷ “ETSB Personnel Roster” DuPage County ETSB. 2011. Pg. 1.

¹⁸ “FY11 ETSB Budget” DuPage County ETSB. Pg. 3.

¹⁹ “Strategic Report April 2010” DuPage County ETSB. April 2010. Pg. 8.

²⁰ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

²¹ “ETSB Personnel Roster” Emergency Telephone System Board. Pg. 1.

²² “OCB-001A-09 Amending the ByLaws for the Emergency Telephone System Board” DuPage County. Nov. 9, 2010. Pg.5.

²³ “Strategic Report April 2010” DuPage County ETSB. April 2010. Pg. 5.

²⁴ “Strategic Report April 2010” DuPage County ETSB. April 2010. Pg. 5.

²⁵ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011.

²⁶ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

²⁷ Interview Notes” Interview with Linda Zerwin and Jim Rasins of DuPage Emergency Telephone System Board. November 29, 2011 Pg. 4.

DuPage Fair & Exposition Authority

Background

The DuPage Fair and Exposition Authority was formed 23 years ago to receive funds from the State of Illinois and distribute the funds according to Illinois Department of Agriculture regulations. The Fair and Exposition Authority serves as a funding arm of the Fair Association, a separate non-profit entity, whose responsibility is planning and executing the five-day County Fair. For this study, Crowe reviewed the Fair and Exposition Authority as the Authority Board members are appointed by the DuPage County Board Chairman. The Fair Association is not within the County Board's jurisdiction and is not within the scope of this study.

Enabling Statute

30 ILCS 120/17 Agricultural Fair Act: Provides for the formation of the Fair and Exposition Authority to receive appropriations from the Illinois Department of Agriculture's Fair and Exposition Fund. The statute also outlines the Fair and Exposition Authority Board composition. The statute and formation of a Fair & Exposition Authority applies only to those County Fairs accessing funds from the Fair and Exposition Authority Fund, and not to those utilizing the Agriculture Premium Fund.¹

Board Composition

The Board of the Authority consists of seven trustees that are not compensated and serve five-year terms.² Per provided Board materials, Board meetings are scheduled quarterly for the second Thursday of the month at the Fair Offices.³

Financial Summary

The Authority files a Declaration of Intent with the Department of Agriculture that serves as its budget. All funds are appropriated by Department of Agriculture based on this form and available funds.⁴ Interest revenue from certificates of deposit and a money market account are the only other sources of revenue.

In 2011, the Authority requested through the Declaration of Intent appropriations totaling \$198,839.⁵ These funds are statutorily limited in use and may not be used for:⁶

- Payment of personnel
- Acts that are solely for entertainment

Observations

The following observations are derived from interviews with the Fair & Expo Authority, review of documents provided by the Authority, and best practice research.

Financial Analysis

- Operating Grants from the Department of Agriculture, the primary source of funding, have dropped significantly from approximately \$300,000 in 2005-2010⁷ to an expected \$198,000 in 2011.⁸
- As the State of Illinois continues to face fiscal stress, it is not likely that the financial situation of the Authority is going to improve unless additional sources of revenue are found. In addition, revenues of the Association from gate receipts and other revenues continue to face stress due to attendance declines. These issues compounded by significant fixed costs of the fairgrounds present many challenges to the continued viability of the fair.
- The Authority has had an average decrease in its net assets of over \$90,000 annually leading to a concern regarding the long-term viability of the Authority.

- The tables below present some of the financial results including the trends of receipts of the Authority from the State of Illinois:

Summary Statement of Net Assets

	<u>Sept. 30, 2010</u>	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>
Current Assets			
Cash	311,943	72,467	156,060
Investments	51,042	366,188	363,015
Due from DuPage County Fair Association	-	-	75,000
Accrued Interest Receivable	-	2,888	237
Prepaid Expenses	13,704	15,906	16,097
Total Current Assets	<u>376,689</u>	<u>457,449</u>	<u>610,409</u>
Property & Equipment			
Buildings	662,063	642,278	642,278
Equipment	188,671	188,671	188,671
Building and Grounds	1,142,958	1,142,958	1,142,958
	1,993,692	1,973,907	1,973,907
Less Accumulated Depreciation	<u>(1,748,254)</u>	<u>(1,718,906)</u>	<u>(1,677,227)</u>
Net Property & Equipment	245,438	255,001	296,680
Total Assets	622,127	712,450	907,089
Current Liabilities			
Accounts Payable	226	179	83,504
Net Assets			
Invested in Capital Assets, net of related debt	1,993,692	1,973,907	1,973,907
Unrestricted	<u>(1,371,791)</u>	<u>(1,261,636)</u>	<u>(1,150,322)</u>
Total Net Assets	621,901	712,271	823,585
Total Liabilities and Net Assets	<u><u>622,127</u></u>	<u><u>712,450</u></u>	<u><u>907,089</u></u>

Summary Statement of Activities

	<u>Sept. 30, 2010</u>	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>
Program Revenues			
Operating Grant	299,595	299,595	293,567
Program Expenses			
Fair Expenses-			
General Office Expenses	12,780	13,308	13,972
Utilities	16,360	14,662	21,252
Insurance	39,414	43,273	40,549
Ag Division	18,659	16,892	15,198
Ag Education	30,679	24,765	22,523
Gate, parking and security	77,537	72,775	83,504
Program Expenses	5,564	3,529	3,823
Premium Checks-prizes	71,019	86,308	76,540
Buildings and grounds committee	86,977	96,749	27,920
Open Class Committee	2,489	10,249	13,833
Improvements	-	-	26,225
Depreciation	29,348	41,679	46,421
Total Program Expenses	<u>390,826</u>	<u>424,189</u>	<u>391,760</u>
NET PROGRAM (LOSS)	(91,231)	(124,594)	(98,193)
Other Income			
Interest Revenue	861	13,280	18,455
CHANGE IN NET ASSETS	(90,370)	(111,314)	(79,738)
Net Assets, beginning of year	<u>712,271</u>	<u>823,585</u>	<u>903,323</u>
Net Assets, end of year	<u><u>621,901</u></u>	<u><u>712,271</u></u>	<u><u>823,585</u></u>

Sources:

1. Financial Statement and Auditor's Report 2009 and 2008
 2. Financial Statement and Auditor's Report 2010 and 2009
- Revenues collected during the fair are deposited with the Fair Association. These include gate revenue from admittance and event revenue from concerts and other entertainment.⁹
 - There are daily audits of the gate funds before they are deposited.
 - The Fair & Expo Authority and the Fair Association rely on an audit to ensure compliance. The Authority and the Association use the same auditor, but maintain separate audited financial statements because the Authority and the Association are separate legal entities. The auditor is changed every four years.¹⁰
 - The book-keeping of the Authority is done by the Secretary, who also works for Association.

Organizational Efficiency

- The fairgrounds are leased from the County at a rate of \$1,375 per year for approximately 42 acres. The lease is held by the Fair Association and expires in 2020.¹¹ The fairgrounds are valuable property to the County due to its location and there is currently no opt-out clause in the lease. Because of this, the Authority has been looking for alternative fairground locations. Limited options within the County have made this search difficult.¹²
- The Authority is responsible for maintaining the fairgrounds in regards to major improvements to buildings and utilities outside of the fair days. The Association is responsible for day-to-day maintenance such as paving, landscaping, painting the inside of buildings, utilities for the duration of the fair, and trimming.¹³
- The Fair and Exposition has no employees and pays no salaries.¹⁴ Because of this, there is no organizational chart, salary information, or personnel policy.

Duplication of Effort/Service

- The Fair Authority and the Fair Association are very much intertwined with the people and services that are provided and it can be difficult to separate the responsibilities of each organization.

Procurement Methodology

- The Authority does have a procurement policy that has been submitted and is on file with the County in accordance with ordinance OCB-001-11. Upon review of the policy, the following areas of inconsistency with the County's policy were found:
 - Bid security / bonding requirements
 - Insurance requirements for contractors
 - Record retention for contractors
 - Authorization for the use of electronic transmissions
 - Bid and/or request for proposal document addenda and questions
 - Communication with bidders/offerors
 - Placement of purchasing items on agendas
 - Public access to procurement information
 - Provision for emergency procurements
 - Cooperative joint purchasing

- Provision for County auditor to audit contractor books and records when related to a contract
- Change order and contract modification procedures
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy

Internal Controls

- The Authority has not had an ethics policy in the past. One is currently under review by the Board of Directors.¹⁵
- The State of Illinois has some oversight in regards to fair premiums (monetary awards for animal shows, art shows, etc.). The Fair Association pays premiums according to a catalogue of premium amounts that are based on prize. The Authority then reports premiums back to the State.¹⁶

Transparency and Accountability

- The Authority utilized the County website to post a meeting agenda in May 2011; however, no minutes for this meeting were posted and no other meeting agendas have been posted.¹⁷

Other

- Given the difficulty in finding new fairgrounds, continued decrease in funding, and declining fair attendance over the past 10 years, there is some concern over the long-term viability of the County Fair. The water system on the Fairgrounds was also noted as a possible risk due to the age of the system.¹⁸

Operational Recommendation(s)

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Increase Transparency and Accountability

- Provide regular communication to the public and County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Fair and Exposition Authority and DuPage County to improve communications, share information and best practices, etc.
- Post all meeting information and other documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

In order to more fully align its procurement policy with DuPage County, we recommend that the Fair and Exposition Authority **add** the following requirements to its procurement policy:

- Bid security / bonding requirements
- Insurance requirements for contractors
- Record retention for contractors (recommended 3 years from final payment)

- Authorization for the use of electronic transmissions
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Placement of purchasing items on agendas
- Public access to procurement information
- Provision for emergency procurements
- Cooperative joint purchasing
- Provision for County auditor to audit contractor books and records when related to a contract
- Change order and contract modification procedures
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy (recommended every 5 years)

Ethics

- The Authority did not previously have an ethics policy; however, in interviews they noted that the Authority is working to draft a policy. We recommend the Authority adopts an ethics policy that contains all the standards of the DuPage County Ethics Policy.

Adopting these policies will help ensure that the Authority has the proper internal controls in place for the future. It establishes a formal standard of conduct for all Authority members.

Fair & Fairground Viability

- County should consider the long term viability of the fair,
- County should actively work with the Authority to find a new location for the fairgrounds,
- County should investigate the possibility of sharing a fair location with a neighboring county to better manage costs and to potentially provide more activities and options for fair attendees.

The Fair and Exposition Authority has been coming under increased financial strain. As the State of Illinois continues to undergo fiscal stress resulting in less funding to local governments, the Authority's financial strain is likely to continue. In addition, as gate receipts continue to decline less operational revenues will become available for the Association to operate a viable fair that will attract attendees.

Given the difficulty in finding new fairgrounds, continued decrease in funding, and declining fair attendance over the past 10 years, there is some concern over the long-term viability of the County Fair. We recommend that the County work to find a solution before the 2020 fairground lease expiration.

Structural Recommendation(s)

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Consider transferring Authority's function to the County

- Investigate potential legislative change to allow Illinois Department of Agriculture funding to be distributed directly to the County, who can act as the pass through agent for funding the Association and provide Association oversight.

Transferring the Authority's mission and power would remove a level of government as well as relieve the County of any associated risk. It would also reduce the need for volunteer trustees while maintaining access to state funds.

Conclusion

The Fair and Exposition Authority has been facing increased financial strain. As the State of Illinois continues to undergo fiscal stress resulting in less funding to local governments, the Authority's financial strain is likely to continue. Given the difficulty in finding new fairgrounds, continued decrease in funding, and declining fair attendance over the past 10 years, there is some concern over the long-term viability of the County Fair. We recommend that the County consider the long-term viability of the fair, work with the Authority to find a new fairground location, and consider the possibility of sharing a fair location with another County.

We also recommend that the District increase transparency and accountability through increased communication with the County Board and by posting meeting and other information on the County's website. We also recommend the District implement and update its procurement and ethics policies.

Furthermore, we recommend that the Authority investigate potential legislative change to allow Illinois Department of Agriculture funding to be distributed directly to the County, who can act as the pass through agent for funding the Association and provide Association oversight.

¹ “Illinois Compiled Statutes (30 ILCS 120/17) Agricultural Fair Act.” Illinois General Assembly Website. Accessed January 4, 2012. <http://ilga.gov/legislation/ilcs/fulltext.asp?DocName=003001200K17>

² “Fair & Exposition Authority” DuPage County Website. 2011.

³ “Meeting Schedule” Fair and Expo Authority. Pg. 1

⁴ “Fair and Expo Authority Cover Letter” Fair and Exposition Authority. 2011. Pg. 1

⁵ “F and E Declaration of Intent” Fair and Exposition Authority. Pg. 1

⁶ “30 ILCS 120/9” State of Illinois.

⁷ “Financial Statements” Fair and Exposition Authority. 2005-1010. Pgs. 4-6

⁸ “F and E Declaration of Intent” Fair and Exposition Authority. Pg. 1

⁹ “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 1

¹⁰ “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 2

¹¹ “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 2

¹² “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 2

¹³ “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 2

¹⁴ “Fair & Expo Authority Cover Letter” Michael Formento. September 30, 2011 Pg. 1

¹⁵ “Fair & Expo Authority Cover Letter” Michael Formento. September 30, 2011 Pg. 1

¹⁶ “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 2

¹⁷ “Fair & Exposition Authority-Agendas and Minutes” DuPage County Website. 2011.

<http://www.dupageco.org/agendas.aspx?fid=2725>

¹⁸ “Interview Notes” Interview with Michael Formento. November 30, 2011. Pg. 2

Fire Protection Districts Summary

Background

At the request of DuPage County, Crowe Horwath LLP has performed a limited study to review various aspects of nine fire protection districts that have had the governing body Board Members appointed by the County Board Chairman and confirmed by the DuPage County Board. The purpose of the study was to obtain a better understanding of the fire protection districts' (FPD's) functions, assess their transparency and accountability, assess opportunities to improve operational efficiency, streamline organizational structures, and reduce costs. In addition, an assessment was made of the long-term financial sustainability of the fire districts. The nine FPDs included in the study are as follows:

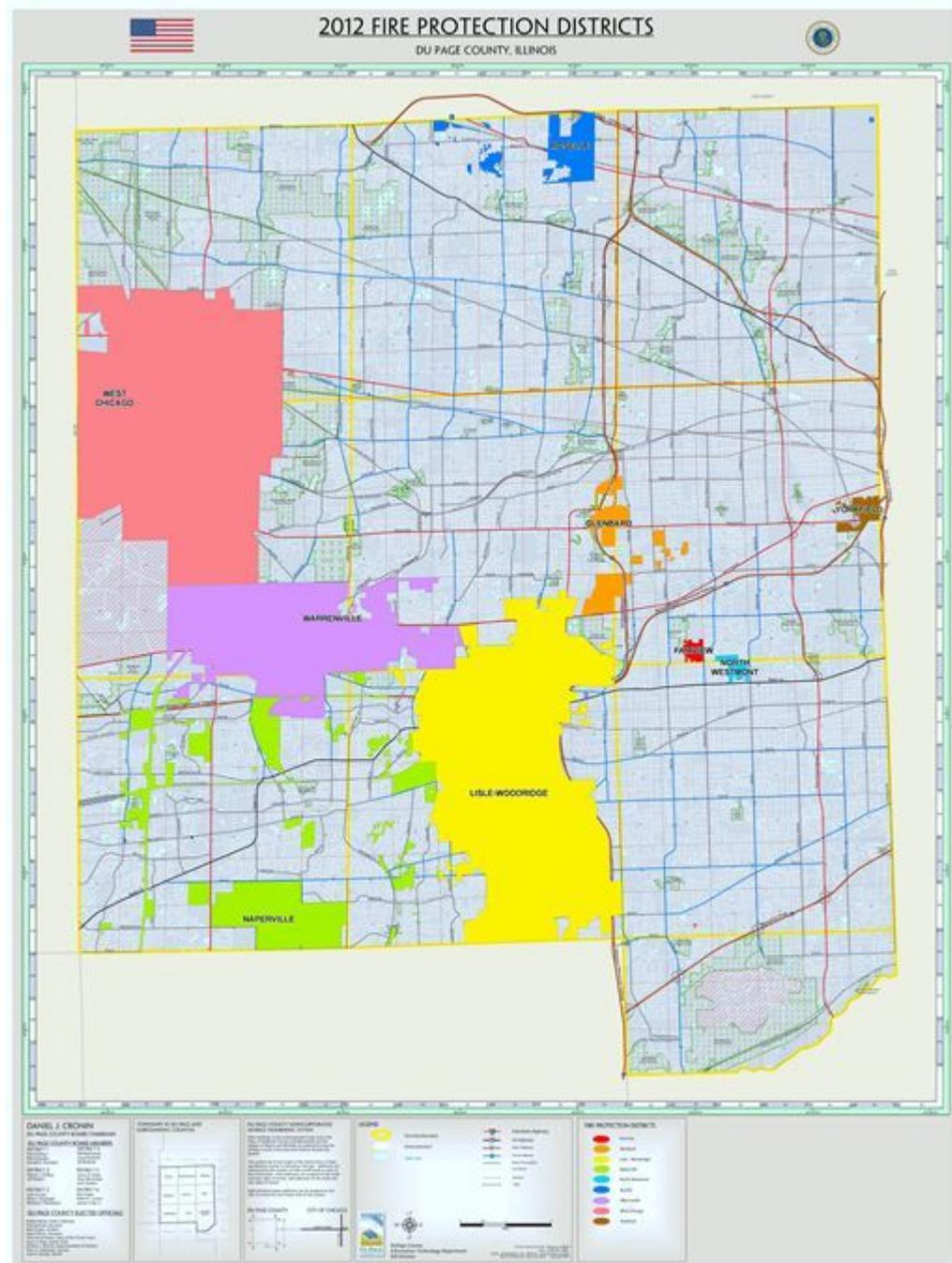
- Fairview Fire Protection District,
- Glenbard Fire Protection District,
- Lisle-Woodridge Fire Protection District,
- Naperville Fire Protection District,
- North Westmont Fire Protection District,
- Roselle Fire Protection District,
- Warrenville Fire Protection District,
- West Chicago Fire Protection District, and
- Yorkfied Fire Protection District.

Individual reports on the fire districts included within our scope have been prepared with observations and recommendations to offer specific matters for further consideration by the County and the individual fire districts. The sections of each report have been consistently formatted to offer comparative information for each fire district; however, each district operates under different circumstances, and care must be exercised not to attempt general comparisons without fully understanding the character of the services provided by each district. The individual fire district reports include the following sections:

- Background,
- Observations,
 - Financial Analysis and Summary Financial Information
 - Organizational Efficiency
 - Procurement Methodology and Internal Controls
 - Transparency and Accountability
- Operational Recommendations, and
- Structural Recommendations.

Two different types of jurisdictions provide operating fire protection and emergency medical services: municipalities and fire protection districts. Many fire protection districts were created in order to provide fire protection in unincorporated areas of DuPage County. Over time, municipalities have annexed unincorporated areas. As FPDs lost land to annexation, and thus property tax revenue, some districts chose to stop providing services directly and contract with a neighboring municipality instead. In these cases, the fire protection district acts only as a means to raise revenue and is frequently called a "paper" district. This analysis reviewed three operating fire protection districts and six paper districts.

The map below shows the boundaries of the nine FPDs that were reviewed as part of this study. The map illustrates that as unincorporated land has been annexed into municipalities, there are now “islands” of unincorporated land surrounded by a municipality. While these islands can make the efficient provision of fire protection services difficult, this is usually mitigated by contracting with the surrounding municipality for services. It is important to note that the boundaries of the districts have ramifications on any future district organization changes as State statute requires that jurisdictions have contiguous geographic boundaries in order to consolidate.



Observations and Operational Recommendations

Financial Analysis

While we did not conduct an audit of the financial statements of the nine FPDs, and we are not expressing any assurance on the financial results, we have made high-level evaluations about their financial sustainability.

The table below shows tax levy and parcel information for the nine districts that were reviewed. The size and levy amount of the districts varied greatly – from Fairview with just 187 parcels to Lisle-Woodridge with 22,402. The property tax levy of these districts may vary depending upon many factors, including:

- District’s equalized assessed valuation (EAV)
- Geographic size
- Level or amount of contracted services
- Number of employees that receive compensation

<u>District</u>	<u>Parcels</u>	<u>Tax Levy</u>	<u>Tax Levy per Parcel</u>
Paper			
Fairview	187	\$18,359	\$98.18
Glenbard	2,099	\$309,438	\$147.42
Naperville	2,615	\$762,559	\$291.61
North Westmont	561	\$40,715	\$72.58
Roselle	863	\$501,329	\$580.91
Yorkfield	359	\$89,528	\$249.38
Operational			
Lisle-Woodridge	22,402	\$16,130,298	\$720.04
Warrenville	6,291	\$2,656,712	\$422.30
West Chicago	10,830	\$6,965,046	\$643.13

In order to compare across districts and control for size, we calculated the tax levy per parcel. The tax levy per parcel also varied greatly between districts, but on average, paper districts have a lower tax levy per parcel than operating districts. There are a number of likely reasons for this, including the fact that paper districts contract with municipalities with large fire departments that are more efficient due to economies of scale. Another possible reason is that the municipalities contracting with the paper districts often do not charge the districts for the full cost of service, thus the tax payers in that municipality are subsidizing the cost of fire protection for the people in that fire district. Finally, a study by the DuPage Intergovernmental Task Force indicated there is some evidence that the variation in expenditure levels among fire provision units is related to its constituents’ demand for service.¹

During our financial review, two items were pervasive among several of the districts:

- All of the FPDs are subject to property tax caps that limit the districts’ ability to raise future revenue. The Property Tax Extension Limitation Law (PTELL) or “tax caps” limit the annual growth of the primary revenue source to the consumer price index.
- Paper districts’ service area and property tax revenue are decreasing as municipalities continue to annex unincorporated areas.

Based on the financial analysis, we have concluded that the three operating districts (Lisle-Woodridge, Warrenville, West Chicago) along with the Naperville paper district are financially stable. While the Yorkfield paper district is stable, it is currently spending down a reserve created

when all of their operating assets were sold off. North Westmont is financially stable, but there are transparency questions on how fire protection expenditures are determined. It appears the district spends most of its funds on equipment turned over to the Village of Westmont, and not a prorated share of operating expenses. The Fairview and Glenbard paper districts both show signs of financial instability and there is concern for their future sustainability. Finally, Roselle FPD did not fully comply with County Ordinance OCB-001-11. As such, we did not receive financial information from the district and was limited to information we could obtain from the State of Illinois Comptroller's website. Therefore, our financial analysis on the District's current financial stability was limited to the information we could obtain independently from the State of Illinois Comptroller's website. A follow-up call was placed to the trustee and information was to be sent, but has not yet been received.

We have the following specific financial recommendations:

- **Develop a Financial Viability Plan for Fairview, Glenbard, and Roselle FPDs to better understand deficit spending and future sustainability. The question regarding sustainability will require the attention of the County to address potential obligations and liabilities. The County will also likely need to facilitate further discussions regarding the long-term viability of these smaller stand-alone fire protection districts.**
- **For North Westmont and Yorkfield FPD, review budgeting and expenditure projection methodology. As noted above, most of North Westmont's expenditures are for equipment, which is transferred to the Village of Westmont. This is the only FPD that we analyzed which follows this procedure, and a review should be conducted to better understand the logic and to improve the transparency of this approach. For Yorkfield, we recommend this methodology to ensure that there is a plan for the use of the current surplus and that the current tax levy is appropriate for operating expenses.**
- **For Roselle FPD, fully comply with County Ordinance OCB-001-11 regarding the filing of annual financial reports and trustee compensation. We have received no financial statement information from the District; therefore, we were limited to information we could obtain from the State of Illinois Comptroller's website. Based on this information, we believe there are significant financial concerns that will need to be addressed related to the sustainability of the Roselle Fire Protection District.**
- **The Roselle FPD does not appear to comply with 70 ILCS 705/6 for compensation of board members. Based upon our limited document review, we believe that the board members are compensated too much given their status as a paper district with no direct full-time firefighting staff. This needs to be corrected promptly. The County may need to consider further actions if Roselle FPD does not comply with State Statute. If noncompliance is confirmed, the District may have overpaid each Trustee \$2,000 per year for a total of \$6,000 per year since 1991.**
- **For all paper FPDs, we recommend conducting a study of the cost of services to determine the appropriate charges for services. As all FPDs are under property tax caps, this process can help stabilize declining financial operations or help keep stable districts in a positive position.**
- **For all operational FPDs, we recommend that each District complete a long-term financial analysis. The Districts rely heavily on property taxes which presents at least two factors for further consideration, including: 1) property taxes are received in two installments annually, therefore, significant cash flow problems**

can occur outside the property tax receipt cycle and 2) the Property Tax Extension Limitation Law (PTELL) or “tax caps” limit the annual growth of the District’s primary revenue source to the consumer price index. Therefore, a long-term financial plan is needed to better understand the parameter it is under. It will be especially important that the long-term financial analysis consider the effects of pension and other post-employment benefits (OPEB) on the future financial situation at each District.

Organizational Efficiency

Organizational efficiency matters were discussed with seven of the nine Districts (North Westmont and Glenbard were not in attendance) in two focus group sessions conducted on November 30, 2011, and in subsequent conversations and correspondence. In addition, the issue of organizational efficiency has been previously studied by the DuPage Intergovernmental Task Force. The Task Force Study indicated that the size of the fire department has a large impact on the cost of service. Small volunteer departments are relatively low cost. Large departments spend slightly more, but due to economies of scale, they are usually more cost efficient. Mid-size departments tend to be the most costly, especially if they rely heavily on full-time, non-contract personnel.²

For paper districts, the vast majority of their cost is the contract with the municipality for services. Due to geographic restraints, most paper districts are limited to few or sometimes only one municipality for contracting fire protection services. Because of the limited options, the Districts are subject to any change in services or rates by the body with whom they are contracting.³ Many of the districts are not aware if there is a methodology that is used by their contracting municipality to determine cost of service. For example, in the case of North Westmont, the City of Westmont significantly undercharges the district for services, but receives donations of equipment every few years. This type of exchange lacks transparency and hides the true cost of service.

We recommend that future contracts with the service providers be based on the actual costs of service.

In addition to the contract for services, paper districts also have administrative costs associated with accounting, legal, etc. It may be beneficial for the paper districts to explore sharing these costs with a neighboring municipality.

We recommend that both paper and operating districts engage in further collaboration of sharing personnel, equipment, and administration to help streamline costs between districts and municipalities.

Procurement Methodology/Internal Controls

We made several recommendations to procurement and internal controls related policies of the fire protection districts. Each of the districts had different levels of policies in place; however, all of them should make improvements to their policies

We recommend that fire protection districts adopt or amend their procurement and ethics policies to be in alignment with the County’s policies. We also recommended that those fire districts with credit cards review and revise their credit card policy to provide more controls over credit card usage.

Transparency and Accountability

We recommend that the County and each fire protection district included within the study increase transparency and accountability by performing the following:

- Provide regular communication to the public and the County Board Chairman’s Office.

- Consider assigning County staff to serve as a liaison between the fire district and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website if the fire protection district does not maintain a website.

Compliance with County Ordinance OCB-001-11

As noted in the financial summary, Roselle FPD did not fully comply with requests for further information related to the study we conducted.

We recommend that in the future that all Districts subject to the County Ordinance comply with the requirements by providing information as requested. In addition, and as noted above, all districts should post relevant information on the County's website.

Structural Recommendations

Investigate options for alternative service models

We recommend that the County and other fire protection districts collaborate further on investigating options for alternative service models. Options for the districts to consider include the following:

Annexation

- Facilitate annexation of the District by a neighboring service provider or municipality.
- Facilitate Discussions: Help educate & facilitate discussions among residents of unincorporated areas to explore annexation, its advantages/disadvantages, and other alternatives.

Shared Services

- Consider cost saving measures to have a municipality act as fiscal and administrative agents for a district. Activities including finance, legal, publications, insurance and supplies could potentially be provided by a municipality at a lower cost.

Fee for Service

- Consider dissolving the District and implementing a fee for service model for the paper districts. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.

To address many of the recommendations described above we recommend that the districts and the County engage the Fire Service Stakeholders Committee convened by the DuPage Mayors and Managers Conference to explore potential consolidation and sharing of best practices

- The Fire Service Stakeholders Committee has been working with its member municipalities to identify and eliminate the barriers to the consolidation of fire services. To our knowledge, representatives of the paper districts appointed by the chairman and confirmed by the county board have not been part of the discussions to date. We would recommend that a trustee from one of the districts be included as a representative of the Fire Service Stakeholders Group moving forward. For the paper FPD's under study, the County can facilitate meetings between the Fire Service Stakeholders Committee and the FPDs which the Chairman appoints Board members in order to begin to involve these Districts in the discussions.
- Consolidation, shared services, and best practices discussions should include all districts and municipalities providing fire protection service within the County. The majority of these

bodies were not within the scope of this project; however, significant county-wide savings can be achieved through such efforts and further study is necessary.

While engaging more districts in the Fire Service Stakeholders Committee discussions will require additional effort, it is important to gather input and gain buy-in from all bodies that may be involved in a potential consolidation.

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- ¹ “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 15.
² “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 7.
³ “Interview Notes” Interview with Larry Budnik of Fairview Fire Protection District. November 29, 2011 Pg. 1.

Lisle-Woodridge Fire Protection District

Background

The District encompasses five fire stations and protects the Village of Lisle, 80% of the Village of Woodridge (primarily west of I-355), and some unincorporated areas of DuPage County. It protects approximately 30 sq. mi. and a population of approximately 70,000 residents.¹ The District consists of 22,402 parcels of property.² Lisle-Woodridge Fire Protection District (FPD) has an estimated 177 full time employees.³

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.⁴

Board Composition

The board consists of five trustees that are compensated \$3,000 per year plus life insurance and serve three-year terms.⁵ Per provided Board materials, Board meetings are held once per month.⁶

Financial Summary

- In 2010, the District levied a property tax of \$16,130,298 at a rate of 0.6682%.⁷
- The property tax applies to all property within the Lisle-Woodridge Fire Protection District. In March 2002, a successful voter referendum resulted in a 25% increase in the total tax rate, which allowed for emergency medical service improvements and enhancements, operational programs and remodeling of four stations.⁸
- The District's total expenses for FY2010 were \$18,728,204.⁹

Observations

The following observations are derived from interviews with the Lisle-Woodridge Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

The financial analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data.

- The District feels that their financial stability is limited because they don't have the capability to increase revenues without going to a referendum.¹⁰ The District relies heavily on property taxes and the Property Tax Extension Limitation Law (PTELL) or "tax caps" limit the annual growth of the District's primary revenue source to the consumer price index. This is an important consideration and the District will need to develop a long-term financial plan to better understand the options necessary to manage the District's finances.

DuPage County

Assessment of Boards and Commissions

- The District's net assets decreased by about \$2.750 million from December 31, 2008 to December 31, 2010. The net asset balance was about \$5 million as of December 31, 2010. The District experienced about a \$1.4 million decrease in fiscal year December 31, 2010, which it attributed to increases in liabilities for compensated absences and pension obligations. The District indicated that it adopted a fund balance policy on November 22, 2011.¹⁶
- The Fire Alarm Radio Network Fund has deficit net assets in the amount of \$160,534 as of December 31, 2010. Several factors resulted in the deficit, 1) this was the second year of operation and 2) there was a lawsuit that had an effect on the network's finances.^{11 18}
- The District's Other Post Employment Benefit (OPEB) costs continue to grow. As of December 31, 2010, the OPEB Obligation was \$324,887 and the District has been contributing less than 35% of the required actuarially determined contribution amount. The District will evaluate the OPEB as part of its annual audit for the year-end December 31, 2011.¹² The District's retirees pay 100% of the premium; however, the District is providing an implicit subsidy to the retirees, therefore, the amount of OPEB liabilities will need to be shown on the District's financial statements. OPEB funding will be a matter that will need to be monitored in the future to ensure that the amount does not become too large to manage.
- The District's pension costs continue to grow. As of December 31, 2010, the net pension obligation has grown to \$5,201,244 from \$2,681,975 on December 31, 2008. The annual required contribution to the District's Firefighters' Pension Fund has grown to \$2,954,404 from \$1,367,418 in 2005. The District's annual contribution to the pension fund has declined to approximately 47% of the actuarially determined required annual contribution. In 2005, the District contributed 91% of the annual required contribution amount.
- With limited opportunities to increase revenues due to tax caps the District will need to determine how to manage the OPEB and pension costs, as such costs will continue to place a financial strain on the District.

DuPage County

Assessment of Boards and Commissions

The District's most recent audited financial statements are for the year ended December 31, 2010, dated April 8, 2011. Information for the years 2009 and 2008 has been presented for comparative purposes. The tables below present a financial summary for the District:

Summary Statement of Net Assets

	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Assets			
Current & Other Assets	27,082,205	25,720,634	23,956,012
Capital Assets, net	<u>9,466,667</u>	<u>9,890,525</u>	<u>9,669,793</u>
Total Assets	<u>36,548,872</u>	<u>35,611,159</u>	<u>33,625,805</u>
Liabilities			
Long Term Liabilities	14,489,995	12,617,267	9,566,885
Other Liabilities	<u>16,997,578</u>	<u>16,529,792</u>	<u>16,247,535</u>
Total Liabilities	<u>31,487,573</u>	<u>29,147,059</u>	<u>25,814,420</u>
Net Assets			
Invested in Capital Assets, net of related debt	2,531,845	2,726,160	2,761,753
Restricted	2,107,986	2,017,940	1,603,070
Unrestricted	<u>421,470</u>	<u>1,720,000</u>	<u>3,446,562</u>
Total Net Assets	<u><u>5,061,299</u></u>	<u><u>6,464,100</u></u>	<u><u>7,811,385</u></u>

DuPage County
Assessment of Boards and Commissions

Summary Statement of Activities

	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Program Revenues	1,771,486	1,308,812	1,704,102
General Revenues	15,892,313	15,533,182	14,864,589
Unrestricted Investment Earnings	18,738	73,348	162,772
Gain on Disposition of Capital Assets	7,306	-	-
Other	13,810	299,126	137,031
Total Revenues	17,703,653	17,214,468	16,868,494
Expenses	19,106,454	17,791,004	16,754,816
Change in Net Assets	(1,402,801)	(576,536)	113,678
Net Assets, Beginning	6,464,100	7,811,385	7,697,707
Net Assets, End	5,061,299	6,464,100	7,811,385

DuPage County
Assessment of Boards and Commissions

Summary Statement of Activities

	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Program Revenues	1,771,486	1,308,812	1,704,102
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Change in Net Assets	(1,402,801)	(576,536)	113,678
Net Assets, Beginning	6,464,100	7,811,385	7,697,707
Net Assets, End	<u>5,061,299</u>	<u>6,464,100</u>	<u>7,811,385</u>

Sources:

1. Lisle-Woodridge Fire Protection District 2009 Final CAFR
2. Lisle-Woodridge Fire Protection District 2010 Final CAFR

Organizational Efficiency

- The District currently holds the highest possible insurance rating: Insurance Service Office (ISO) Class 1. An ISO 1 rating allows property owners to enjoy the lowest possible fire insurance premiums. In Illinois, the District is one of only five jurisdictions with an ISO 1 rating.¹³
- The District maintains that it is open to as much cooperation and collaboration as possible. It would support full consolidation of Districts if that were to be a possibility.¹⁴

Procurement Methodology

The District does maintain a procurement policy; however, upon comparison of the District's policy to DuPage County's Procurement Policy, we found that the policy did not have information regarding the following items:

- Record retention for contractors
- Authorization for the use of electronic transmissions
- Placement of purchasing items on agendas
- Public access to procurement information

DuPage County

Assessment of Boards and Commissions

- Cooperative joint purchasing
- Provision for County auditor to audit contractor books and records when related to a contract
- Change order and contract modification procedures
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison of the District's policy to DuPage County's Ethics Policy, we found that the policy did not have information regarding the following items:

- Political Contribution Limit
- Ethics training requirement
- Contractor disclosure
- Board disclosure
- Conflict of interest
- Future employment
- Former employment relationships

Credit Cards

- Currently, the Fire Chief is the only person with a District credit card. All purchases are approved by the Board of Trustees. No other employees or board trustees have credit cards.
- The District does have a policy on charge cards in its employee policy manual, but the authorized card is not included in the policy.

Other

The District was able to provide an organizational chart, salary information, and a trustee policy manual at the County's request. These documents contained the relevant information that one would expect for such a District.

Transparency and Accountability

- The Lisle-Woodridge Fire Protection District has a website (<http://www.lwfd.org/>) where they post information about the district, including trustee information, a schedule of board meetings, meeting agendas and minutes, and safety information.¹⁵

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Develop a Financial Plan

- We recommend that the District complete further analysis and prepare a long-term financial plan. The District's net assets have declined by over \$2.750 million in the past several years. Current and unknown economic concerns could place future financial constraints on the District. This District will have to consider future pension and OPEB financing issues and provide a plan to address these costs that have increased significantly over the past few years. A long-term financial plan is important for the District to understand the steps necessary to stabilize its financial condition.

The District relies heavily on property taxes, therefore, Property Tax Extension Limitation Law (PTELL) or "tax caps" limit the annual growth of the District's primary revenue source to the consumer price index. We recommend that the District consider property tax caps within a long-term financial plan to better understand the circumstances necessary to accomplish its financial goals. Therefore, a long-term financial plan is needed to better understand the parameter it is under.

Develop Capital Plan

- We recommend that the District evaluate its capital program and document its needs in a formal multi-year capital improvement plan. The District includes one year of its capital projects vehicle replacement and facilities improvement funds within the annual appropriation. A multi-year capital improvement plan will help the District to understand its significant capital needs in the short and long-terms and will provide more information for decision makers. The Capital Plan should also include an evaluation of equipment needs based on an evaluation of the potential for equipment sharing with other municipalities and fire protection districts.

Increase Transparency and Accountability

- Provide regular communication to the public and County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Lisle-Woodridge Fire Protection District and DuPage County to improve communications, share information and best practices, etc.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

Though the District does have a procurement policy, there are slight differences between its policy and the policy of DuPage County. In order to more fully align its procurement policy with DuPage County, we recommend that the Lisle-Woodridge Fire Protection District **add** the following information:

- Record retention for contractors (recommended 3 years from final payment)
- Authorization for the use of electronic transmissions

DuPage County

Assessment of Boards and Commissions

- Placement of purchasing items on agendas
- Public access to procurement information
- Cooperative joint purchasing
- Provision for County auditor to audit contractor books and records when related to a contract
- Change order and contract modification procedures (they do have clause for change to Purchase Order)
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy (recommended every 5 years)

Ethics

In order to more fully align its policy with the ethics policy standard of the County, we recommend that the Lisle-Woodridge Fire Protection District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Credit Cards

We recommend that the District enhance its policy by adding the following information:

- Names of the credit cards that are authorized and allowed for use by the District.

Conclusion

The Lisle-Woodridge Fire Protection District is considered a stable organization that is showing indications of decline if it does not act soon to develop plans to ensure its sustainability, to establish fund balance reserve policies and to develop a formal capital plan. The District must also address pension and OPEB funding issues to manage these costs to ensure they do not escalate out of control. The District has responded that it is beginning to address its funding issues during budget discussions. The District also indicated that it has developed a fund balance policy and is considering the restructuring of debt to augment pension funding. These steps are important for the District to ensure future sustainability. We have also offered recommendations to the District to address improvements necessary in its procurement, ethics and credit card policies.

DuPage County
Assessment of Boards and Commissions

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- ¹ "Lisle-Woodridge Fire Protection District" DuPage County Website. Accessed Jan. 9, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31560/
- ² "Re: Draft Report." Email from Sheryl Markay. Feb. 7, 2012.
- ³ "Personnel Roster Jan 1" Lisle-Woodridge Fire Protection District. January 2011. Pgs. 1-5
- ⁴ "Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act." Illinois General Assembly Website. Accessed January 9, 2012.
<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>
- ⁵ "Lisle-Woodridge Fire Protection District" DuPage County Website. Accessed Jan. 9, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31560/
- ⁶ "Board of Trustee Meeting Dates and Agendas" Lisle-Woodridge Fire Protection District Website. Accessed Jan. 9, 2012. http://www.lwfd.org/Trustees/agenda_main.asp
- ⁷ "2010 DuPage County Tax Extension Worksheets." DuPage County Clerk.
- ⁸ "Comprehensive Annual Financial Report Fiscal Year Ended December 31, 2010." Lisle-Woodridge Fire Protection District. April 15, 2011. Pg. 13.
- ⁹ "Comprehensive Annual Financial Report Fiscal Year Ended December 31, 2010." Lisle-Woodridge Fire Protection District. April 15, 2011. Pg. 4.
- ¹⁰ "Interview Notes" Interview with Thomas Freeman and Zachary Lawrence of Lisle-Woodridge Fire Protection District. November 30, 2011 Pg. 1.
- ¹¹ Email from Chief Freeman dated February 13, 2012.
- ¹² Email from Chief Freeman dated February 13, 2012.
- ¹³ "Comprehensive Annual Financial Report Fiscal Year Ended December 31, 2010." Lisle-Woodridge Fire Protection District. April 15, 2011. Pg. 14.
- ¹⁴ "Interview Notes" Interview with Thomas Freeman and Zachary Lawrence of Lisle-Woodridge Fire Protection District. November 30, 2011 Pg. 1.
- ¹⁵ "Lisle-Woodridge Fire District" Lisle-Woodridge Fire Protection District Website. Accessed Jan. 9, 2012.
<http://www.lwfd.org/>
- ¹⁶ "Lisle-Woodridge Fire Protection District email response dated May 1, 2012.

Warrenville Fire Protection District

Background

The Warrenville Fire Protection District covers an eighteen-square-mile area that includes all of Warrenville and portions of surrounding communities. The District consists of 6,291 parcels of property¹ and approximately 13,363 residents.² The District operates four fire engines, one 95-foot tower ladder, two rescue vehicles, and two advanced life support ambulances out of two stations.³ According to the Warrenville personnel roster, the District has an estimated 10 full time employees.⁴

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.⁵

Board Composition

The board consists of three trustees that are compensated \$2,250-\$3,375 per year plus life insurance and serve three-year terms.⁶ Per provided Board materials, Board meetings are held once per month.⁷

Financial Summary

- In 2010, the District issued a property tax levy of \$2,656,712 at a rate of 0.4199%.⁸
- The property tax applies to all property within the Warrenville Fire Protection District, which includes all of Warrenville and portions of surrounding communities.
- The District's total expenditures for FY2010 were \$2,460,191.⁹

Observations

The following observations are derived from interviews with the Warrenville Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

The financial analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data.

- The District's net assets decreased by about \$300,000 from April 30, 2008 to April 30, 2011. The net asset balance was about \$3 million as of April 30, 2010; however, net assets increased by about \$85,000 to a balance of \$3,111,954 as of April 30, 2011. The District has responded to inquiries about the deficit spending for the previous years and stated that the District's goal is to continue efforts to balance the budget and set up a capital fund.
- The April 30, 2011, net assets of the District represent about 125% of the annual expenditures, which helps alleviate immediate concerns regarding the deficit spending. This situation will need to be monitored, as there was no clear disclosure of the reason for the deficit spending within the District's financial statements. However, the District's Workers Compensation Insurance Fund had a deficit of over \$180,000 as of April 30, 2011. The deficit has improved as the April 30, 2010 deficit was over \$200,000. The District has not formally explained how it intends to address such a deficit.

DuPage County

Assessment of Boards and Commissions

The District's most recent audited financial statements are for the year ended April 30, 2011, dated September 23, 2011. Information for the years 2010, 2009 and 2008 has been presented for comparative purposes. The tables below present a financial summary for the District:

Summary Statement of Net Assets

	<u>Apr. 30, 2011</u>	<u>Apr. 30, 2010</u>	<u>Apr. 30, 2009</u>	<u>Apr. 30, 2008</u>
ASSETS				
Cash & Investments	534,188	509,435	660,929	2,694,055
Receivables				
Property Taxes	2,497,904	1,925,289	1,882,411	-
Other	9,399	20,680	33,425	-
Other Assets	-	28,891	-	-
Capital Assets, net of Accumulated Depreciation	1,848,980	2,018,994	1,860,908	1,934,133
Total Assets	4,890,471	4,503,289	4,437,673	4,628,188
LIABILITIES				
Current Liabilities				1,297,001
Accounts Payable	37,032	45,240	8,973	
Accrued Payroll	66,795	61,346	94,681	
Other Liabilities	58,612	63,354	27,068	
Deferred Revenue	1,248,951	962,644	941,206	
Long-Term Liabilities	367,127	344,486	66,073	-
Total Liabilities	1,778,517	1,477,070	1,138,001	1,297,001
Net Assets				
Invested in capital assets, net of debt	1,586,971	1,729,045	1,860,908	1,934,133
Restricted	-	-	-	61,396
Unrestricted	1,524,983	1,297,174	1,438,764	1,335,657
Total Net Assets	3,111,954	3,026,219	3,299,672	3,331,186

DuPage County
Assessment of Boards and Commissions

Summary Statement of Revenues

	<u>Apr. 30, 2011</u>	<u>Apr. 30, 2010</u>	<u>Apr. 30, 2009</u>	<u>Apr. 30, 2008</u>
Revenues				
Taxes:				
Property	2,264,583	1,900,352	1,818,755	1,731,831
Replacement	30,015	24,332	42,442	33,427
Ambulance Fees	224,852	200,476	236,980	-
Grants	-	6,400	-	-
Investment Income	4,545	5,786	22,307	47,601
Miscellaneous	46,613	49,392	136,273	117,739
Total Revenue	2,570,608	2,186,738	2,256,757	1,930,598
Expenditures				
Public Safety	2,473,140	2,446,659	2,288,272	
Interest	11,733	13,532	-	
Total Expenditures	2,484,873	2,460,191	2,288,272	2,140,903
Change in Net Assets	85,735	(273,453)	(31,515)	(210,305)
Net Assets, Beginning of Year	3,026,219	3,299,672	3,331,186	1,310,569
Prior year adjustment				1,963,068
Net Assets, End of Year	3,111,954	3,026,219	3,299,672	3,331,186

Sources:

1. Warrenville Fire Protection District Financial Report 2008
2. Warrenville Fire Protection District Financial Report 2009
3. Warrenville Fire Protection District Financial Report 2010
4. Warrenville Fire Protection District Financial Report 2011

Organizational Efficiency

The District has ten full-time employees and staffs much of the department with part-time employees.¹⁰

Procurement Methodology

Warrenville Fire Protection District does not have a procurement policy.

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison of the District's policy to DuPage County's Procurement Policy, we found that the policy did not have information regarding the following items:

- Gift Ban

DuPage County

Assessment of Boards and Commissions

- Political Contribution Limit
- Prohibited Political Activity
- Ethics training requirement
- Contractor disclosure
- Board disclosure
- Conflict of interest
- Future employment
- Former employment relationships

Credit Cards

- The District has four credit cards in use. Each chief officer (Chief, Deputy Chief, and Assistant Chief) and the District Treasurer have one. Verbal instructions limit the use to strictly district related purchases. Monthly statements are reviewed by a Treasurer's designee (the District Chief) before payment.¹¹
- The District noted that they are in the process of implementing a written credit card policy.

Other

The District was able to provide an organizational chart, salary information, and an employee rules and regulations manual at the County's request. These documents contained the relevant information that one would expect for such a District.

Transparency and Accountability

- The Warrenville Fire Protection District has a website (<http://www.warrenvillefire.com/>) where they post information about the district, a schedule of board meetings, meeting agendas and minutes, and safety information.¹² However, there is no information such as budgets or financial statements.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Develop a Financial Plan and Fund Balance Policy

- We recommend that the District complete further analysis and prepare a long-term financial plan and formalize a fund balance policy. The District maintains a strong overall fund balance; however, economic concerns could place future constraints on the District. We recommend that the District develop a fund balance stabilization policy to guide decision making for budgeting and to meet its financial objectives. The District's overall net asset balance as of April 30, 2011 was over \$3 million or about 125% of annual expenditures while the District's Workers Compensation Fund has a deficit of over \$180,000. The District has not formally described the approach to the deficit in the Workers Compensation Fund.

The District relies heavily on property taxes which presents at least two factors for further consideration, including: 1) the property taxes are received in two installments annually, therefore, significant cash flow problems can occur outside the property tax receipt cycle and 2) the Property Tax Extension Limitation Law (PTELL) or "tax caps" limit the annual growth of the District's primary revenue source to the consumer price index. Therefore, a long-term financial plan is needed to better understand the parameter it is under.

DuPage County
Assessment of Boards and Commissions

Develop Capital Plan

- We recommend that the District evaluate its capital program and document its needs in a formal capital improvement plan. The District has indicated that it has a goal to set up a capital fund. We agree that such a fund will help the District, but we believe that an additional step is the development of a capital plan to help determine the approach to a capital fund.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Warrenville Fire Protection District and DuPage County to improve communications, share information and best practices, etc.
- Post budgets and other financial information on the District website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

Warrenville Fire Protection District does not have a formal procurement policy; therefore, we recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Warrenville Fire Protection District **add** the following information:

- Gift Ban – We recommend adding a provision similar to the one in the Illinois State Officials and Employee Ethics Act (Public Act 93-615)
- Political Contribution Limit – We recommend that trustees if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Prohibited Political Activity – We recommend adding a provision similar to the one in the Illinois State Officials and Employee Ethics Act (Public Act 93-615)
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

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Assessment of Boards and Commissions

Credit Cards

We recommend that the District limit its use of credit cards by board members and implement a written credit card policy, which includes at least the following information:

- Names of the credit cards allowed
- Names of positions authorized to use credit cards. Credit cards should only be used by employees with a reasonable need for use.
- Limitations on the number of credit cards.
- Board members are not considered employees with a reasonable need for use of credit cards.

Conclusion

The Warrenville Fire Protection District is considered a stable organization; however, to ensure its sustainability, we recommend that the District prepare a long-term financial plan, formalize a fund balance policy, and to develop a formal capital plan. We also recommend that the District implement a procurement policy, improve its ethics policy and formalize its credit card policy.

DuPage County
Assessment of Boards and Commissions

¹ “Re: Draft Report.” Email from Sheryl Markay. Feb. 7, 2012.

² “2010 Annual Financial Report” Warrenville FPD via Illinois Comptroller website. 2010. Pg. 3

³ “Warrenville Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31604/

⁴ “Warrenville FPD - Personnel Roster” Warrenville FPD. September 2011. Pgs. 1-3

⁵ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 9, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁶ “Warrenville Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31604/

⁷ “Events – 2012” Warrenville Fire Protection District Website. Accessed Jan. 9, 2012.

<http://www.warrenvillefire.com/2012Events.htm>

⁸ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁹ “Annual Financial Report Fiscal Year Ended April 30, 2010.” Warrenville Fire Protection District. July 26, 2010. Pg. 14.

¹⁰ “Personnel Roster” Warrenville Fire Protection District. September 2011.

¹¹ “Re: Credit Card Policy” Email from Jerry Kleinwachter. January 23, 2012

¹² “Warrenville Fire Protection District” Warrenville Fire Protection District Website. Accessed Jan. 9, 2012.

<http://www.warrenvillefire.com/>

West Chicago Fire Protection District

Background

The West Chicago Fire Protection District (FPD) covers 30 square miles, which includes most of West Chicago as well as parts of St. Charles, Warrenville, and Winfield. The District consists of 10,830 parcels of property¹ and approximately 26,475 residents. The District operates four fire stations and a variety of different vehicles to respond to medical emergencies, fire emergencies, and natural disasters.² According to the list of salaries provided by the District, West Chicago FPD has an estimated 42 full time employees.³

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.⁴

Board Composition

The board consists of five trustees that are compensated \$3,000-\$4,500 annually, depending on level of certification, and serve three-year terms.⁵ Per provided Board materials, Board meetings are held once per month on the fourth Thursday of the month at 7:00 p.m.⁶

Financial Summary

- In 2010, the District levied a property tax of \$6,965,046 at a rate of 0.7078%.⁷
- The property tax applies to all property within the West Chicago Fire Protection District, which includes most of West Chicago as well as parts of St. Charles, Warrenville, and Winfield.
- The District's total expenses for FY2010 were \$13,431,680.⁸

Observations

The following observations are derived from interviews with the West Chicago Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

The financial analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data.

- The District's Net Asset position has improved dramatically from FY 2010 to FY 2011 primarily due to the addition of capital asset balances to the financial statements. As previously reported in the District's financial statements, the net asset position dipped to a negative balance, declining from \$2.8 million in FY2008 to a negative \$4.5 million in FY2010. According to the District's financial statements, Management's Discussion & Analysis (MD&A), there was a 51% increase in spending from FY 2009 to FY 2010 that was due to investments in capital projects that were not being capitalized and depreciated over the items' useful lives. The District's financial statements described the investment in capital projects as the construction of new firehouses. In addition, the financial statements indicated that additional staff were hired which contributed to the increase in spending at the District. The District's FY 2011 financial statements have included about \$12 million in capital assets so that the financial statements now reflect a net assets balance of about \$7 million.

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Assessment of Boards and Commissions

- The unrestricted General Fund balance is inadequate as it includes less than one full month of expenditures. The low fund balance was created by fund transfers from the General Fund for capital projects. The District's General Fund balance of \$81,000 represents about 1% of the District's 2011 General Fund expenditures of \$6.9 million. The District is also accumulating additional funds for future capital purchases and has built up a balance of nearly \$3.6 million in its capital projects fund. The District has indicated that it is reevaluating the capital projects balance and is considering reallocating the balance back to the General Fund.⁹ The District does not maintain a formal fund balance and budget stabilization policy, although the District considers 25-50% of annual expenditures to be a recommended reserve balance.¹⁰ Such a policy will be important for the District to address the significant fund balance deficit created by the construction of new fire stations.
- The District does contribute to the IMRF and Firefighter's Pensions. The IMRF fund was 16% funded as of December 31, 2010, and the Firefighter's fund was 89% funded as of May 31, 2009. The IMRF funded ratio is based on a smaller payroll and contribution level that the District is managing through contributing to the plan at the actuarially determined contribution rate at 100%; however, the District contributed only 57% of the \$19,000 required contribution to IMRF for the year ended May 31, 2010. Even though the Firefighter's Pension Fund has a higher funded ratio than many public employee pension plans, there are some signs that the District has been falling behind in meeting its actuarially determined contribution rate. In plan year 2010, the District only contributed 63% of the annual required contribution of \$608,982 to the firefighter's plan, which is down from the 91% contribution rate in the prior year. The financial statements indicated that the District did hire more personnel and the annual required contribution has increased by 28% and 61%, for the past two years. The District responded that their contribution was increased in 2011 to make the contribution more in line with the actuarial requested amount. In 2009, the district was experiencing rapid growth, and without an actuarial report, it levied too low an amount for the pension.¹¹ The District did provide an actuarial report, dated January 17, 2012, which indicated that the 2011 contribution had increased to 80.5% of the annual required amount.¹²

When asked, the District stated that the IMRF payment that was paid in 2010 was based on the amount that was recommended by IMRF. Upon finding out that it was underfunded, the Board of Trustees made a payment of \$270,000.¹³

The District's most recent audited financial statements are for the year ended May 31, 2011, dated November 28, 2011. The District conducted a capital asset appraisal that shows a net capital asset balance of about \$12 million as of May 31, 2011. The District's financial statements for the year ended May 31, 2010 were restated to reflect the change in the asset and corresponding net asset balances. Two columns for the year May 31, 2010 have been included to reflect the changes in financial position due to the addition of the Capital Asset Balances. Years prior to 2010 have been included for comparative purposes. The tables below present a financial summary for the District:

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Assessment of Boards and Commissions

Summary Statement of Net Assets

	As Revised		Originally Stated		May 31, 2008
	May 31, 2011	May 31, 2010	May 31, 2010	May 31, 2009	
Current Assets					
Cash & Investments	3,682,998	4,427,594	4,427,594	10,474,975	12,003,457
Deferred Charges	75,397	78,824	78,824	82,251	85,678
Noncurrent Capital Assets	12,183,152	11,491,007			
Total Assets	15,941,547	15,997,425	4,506,418	10,557,226	12,089,135
Current Liabilities					
Accrued Payroll & Benefits	(991)	(1,472)	(1,472)	(1,480)	(1,437)
Interest Payable	160,396	162,813	162,813	164,896	181,523
Current Portion of Long Term Debt	165,000	145,000	145,000		3,335
Total Current Liabilities	324,405	306,341	306,341	163,416	183,421
Noncurrent Liabilities					
General Obligation Bonds	8,455,000	8,620,000	8,620,000	8,890,000	9,000,000
Bond Premium Payable	74,046	79,332	79,332	84,686	90,099
Total Noncurrent Liabilities	8,529,046	8,699,332	8,699,332	8,974,686	9,090,099
Total Liabilities	8,853,451	9,005,673	9,005,673	9,138,102	9,273,520
Net Assets					
Invested in Capital Assets Net of Debt	3,328,710	2,664,252			
Restricted-Capital Projects	3,665,590	3,679,728	3,679,728	1,286,225	2,637,079
Restricted-Special Revenues	12,759	6,255	6,255	(1,578)	7,251
Unrestricted	81,037	641,517	(8,185,238)	134,477	171,285
Total Net Assets	7,088,096	6,991,752	(4,499,255)	1,419,124	2,815,615

DuPage County
Assessment of Boards and Commissions

Summary Statement of Net Assets

	<u>May 31, 2011</u>	<u>May 31, 2010</u>	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Revenues				
Program Revenues				
Charges for services	421,805	475,003	458,397	460,056
Capital Grants	200,000	-	89,041	-
General Revenues				
Property Taxes	6,499,642	6,586,757	6,333,887	4,866,801
Replacement Taxes	415,154	313,425	168,569	180,567
Foreign Fire Insurance	-	-	-	-
Investment Earnings	157,059	91,479	364,984	271,021
Other	223,800	46,699	52,306	30,899
Total Revenues	<u>7,917,460</u>	<u>7,513,363</u>	<u>7,467,184</u>	<u>5,809,344</u>
Expenses				
Governmental Activities	-	-	-	-
Public Safety	7,821,116	13,431,739	8,863,681	5,284,136
Total Expenses	<u>7,821,116</u>	<u>13,431,739</u>	<u>8,863,681</u>	<u>5,284,136</u>
Increase (decrease) in net assets	96,344	(5,918,376)	(1,396,497)	525,208
Net Assets, Beginning *	6,991,752	1,419,121	2,815,621	2,290,407
Net Assets, Ending	<u>7,088,096</u>	<u>(4,499,255)</u>	<u>1,419,124</u>	<u>7,917,460</u>

Mathematical differences were noted within the schedules of the financial statements, possibly due to rounding, therefore, there are differences in beginning and ending net assets for several years.

* Beginning Net Asset Balance as of May 31, 2010 changed due to the inclusion of Capital Assets or financial statements.

Sources :

1. 2008 West Chicago Fire Protection District Audit
2. 2009 West Chicago Fire Protection District Audit
3. 2010 West Chicago Fire Protection District Audit
4. 2011 West Chicago Fire Protection District Audit

Organizational Efficiency

- The District is a member of the West Suburban Fire Rescue Alliance, which is a cooperative alliance between West Chicago, Wheaton, Carol Stream and Winfield. The alliance has been working with each other and with the communications center for almost two years to establish common Standard Operating Guidelines (SOG's) and a standard numbering system for all stations.¹⁴
- According to the District, it intends to gain efficiencies through redistributing work and not filling positions when employees leave.¹⁵

DuPage County
Assessment of Boards and Commissions

Procurement Methodology

The District does maintain a procurement policy; however, upon comparison of the District's policy to DuPage County's Procurement Policy, we found that the policy did not have information regarding the following items:

- Bid security / bonding requirements
- Insurance requirements for contractors
- Record retention for contractors
- Authorization for the use of electronic transmissions
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Placement of purchasing items on agendas
- Public access to procurement information
- Cooperative joint purchasing
- Provision for County auditor to audit contractor books and records when related to a contract
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison of the District's policy to DuPage County's Ethics Policy, we found that the policy was missing information regarding the following items:

- Political contribution limits
- Ethics training requirement
- Contractor disclosure
- Board disclosure
- Conflict of interest
- Future employment
- Former employment relationships

Credit Cards

- The President of the Board, the Chief, and the 1st Deputy Chief are issued credit cards.
- There is a \$5000 limit to all of the cards.
- The District's Purchasing Policy contains a paragraph on p. 107 regarding Credit Card Purchasing; however, this section does not clearly limit the use of credit cards.
- In practice, purchases on the card are approved prior to use by the Chief and by the Board at their meeting.

Other

The District was able to provide an organizational chart, salary information, and a general orders manual at the County's request. These documents contained the relevant information that one would expect for such a District.

Transparency and Accountability

- The West Chicago Fire Protection District has a website (<http://www.wegofpd.org/>) where they post information about the district, a schedule of board meetings, meeting agendas and minutes, and safety information.¹⁶

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Develop a Financial Stability Plan

- We recommend that the District complete further analysis to determine how to stabilize the organization's finances through the preparation of a financial plan. The District has experienced significant spending growth over the past few years and it has also invested significant amounts of money in capital assets including firehouses and equipment. Such spending growth and capital improvements have depleted the District's General Fund to a level of about 1% of annual expenditures. The District relies heavily on property taxes which presents at least two factors for further consideration, including: 1) the property taxes are received in two installments annually, therefore, significant cash flow problems can occur outside the property tax receipt cycle and 2) the Property Tax Extension Limitation Law (PTELL) or "tax caps" limit the annual growth of the District's primary revenue source to the consumer price index. With such a low balance, the District could experience cash flow difficulties at times that could lead to a structural deficit.

Develop a Fund Balance Policy

- We recommend that the District implement a fund balance policy to guide decision making for budgeting and to meet its financial objectives. The District's General Fund balance as of May 31, 2011 was about \$81,000 or about 1% of annual expenditures. The District has indicated that it does not have a formal fund balance; however, it recognizes that a fund balance of 25 to 50% is desirable as a reserve. If the District decided upon a fund balance reserve in the General Fund of 25%, it would need a balance of over \$1.7 million. DuPage County's fund balance policy calls for a reserve of 25% of annual expenditures.

Evaluate Capital Projects

- We recommend that the District evaluate its capital program and determine the need for further capital improvements and document its needs in a formal capital improvement plan. The District has made significant capital improvements and renovations over the past few years and has approximately \$8.5 million in debt outstanding as of May 31, 2011. In addition, the District has transferred General Fund reserves to its Capital Projects Fund to fund capital improvements. As of May 31, 2011, the District has about \$3.6 million in its capital projects fund. The District indicated that it is evaluating its future purpose and potentially will reallocate balances in the Capital Projects Fund back to the General Fund. Such an evaluation should be undertaken and formalized into a long-term capital improvement plan. The Capital Plan should also include an evaluation of equipment needs based on an evaluation of the potential for equipment sharing with other municipalities and fire protection districts.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the West Chicago Fire Protection District and DuPage County to improve communications, share information and best practices, etc.

DuPage County

Assessment of Boards and Commissions

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

In order to more fully align its procurement policy with DuPage County's Procurement Policy, we recommend that the West Chicago Fire Protection District **add** the following information:

- Bid security / bonding requirements
- Insurance requirements for contractors
- Record retention for contractors (recommended 3 years from final payment)
- Authorization for the use of electronic transmissions
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Placement of purchasing items on agendas
- Public access to procurement information
- Cooperative joint purchasing
- Provision for County auditor to audit contractor books and records when related to a contract
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy (recommended every 5 years)

In order to more fully align its procurement policy with DuPage County, we recommend that the District **change** the following information:

- Currently the Fire District engages in competitive bidding at the discretion of the Fire District Board of Trustees. We recommend that the District engage in competitive bidding for procurements over \$25,000, except in specific situations where the circumstance is not suitable for bid.

Ethics

In order to more fully align its ethics policy with DuPage County's Ethics Policy, we recommend that the West Chicago Fire Protection District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District

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- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed.

Credit Cards

We recommend that the District enhance its policy by adding the following information:

- Names of the allowed credit cards
- Names of positions authorized to use credit cards. Credit cards should only be used by employees with a reasonable need for use.
- Board members are not considered employees with a reasonable need for use of credit cards.

Conclusion

The West Chicago Fire Protection District is considered a stable organization that is showing indications of decline if it does not act soon to develop plans to ensure its sustainability, to establish fund balance reserve policies and to develop a formal capital plan to provide the rationale for spending and provide more transparency about the plans for additional stations and equipment. The District's low General Fund balance and extensive capital improvement spending without formal documented future plans present the most risk to the District. The District's rapid spending growth and limits on its ability to raise revenues due to the reliance on property taxes present additional challenges to the District. We have also offered recommendations to the District to address improvements necessary in its procurement, ethics and credit card policies.

DuPage County
Assessment of Boards and Commissions

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- ¹ “Re: Draft Report.” Email from Sheryl Markay. Feb. 7, 2012.
- ² “West Chicago Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31602/
- ³ “Salaries” West Chicago FPD. September 1, 2011. Pgs. 1-4
- ⁴ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 9, 2012.
<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>
- ⁵ “West Chicago Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31602/
- ⁶ “Meeting Information” West Chicago Fire Protection District Website. Accessed Jan. 9, 2012.
<http://www.wegofpd.org/meetings.asp>
- ⁷ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.
- ⁸ “Annual Financial Report for the Year Ended May 31, 2010.” West Chicago Fire Protection District. December 5, 2010. Pg. 13.
- ⁹ Letter received from Fire Chief Robert Hodge, dated February 17, 2012.
- ¹⁰ Letter received from Fire Chief Robert Hodge, dated February 17, 2012.
- ¹¹ Letter received from Fire Chief Robert Hodge, dated February 17, 2012.
- ¹² Actuarial valuation report for the year June 1, 2011 to May 31, 2012, prepared by Timothy Sharpe, Actuary, dated January 17, 2012.
- ¹³ “Re: West Chicago FPD Follow-up Questions” Email from Bob Hodge. April 30, 2012
- ¹⁴ “Interview Notes” Interview with Bob Hodge and David Janaes of West Chicago Fire Protection District. November 30, 2011 Pg. 1.
- ¹⁵ “Interview Notes” Interview with Bob Hodge and David Janaes of West Chicago Fire Protection District. November 30, 2011 Pg. 1.
- ¹⁶ “West Chicago Fire Protect District” West Chicago Fire Protect District Website. Accessed Jan. 9, 2012.
<http://www.wegofpd.org/>

Fairview Fire Protection District

Background

The Fairview Fire Protection District is responsible for providing emergency response fire services to the area roughly between Glendenning Road to the North; 36th Street to the East; Fairview Ave and Fairview Road to the South; and 39th Street to the West. This area consists of 187 parcels of property and approximately 750 residents.¹ The district has a contractual agreement with the Village of Downers Grove to provide services to its residents.²

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.³

Board Composition

The board consists of three trustees that are not compensated and serve three-year terms. According to the District, Board meetings are held once per year, but this could not be verified with a published meeting notice.⁴

Financial Summary

- In 2010, the District issued a property tax levy of \$18,359 at a rate of 0.0681%.⁵
- The property tax applies to all property within the Fairview Fire Protection District
- The District's total expenditures for FY2010 were \$17,763.⁶

Observations

The following observations are derived from interviews with the Fairview Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

The financial reports and statements for the District include the following information.

- The District provides a pass-through of its levy to the service provider, the Village of Downers Grove.
- No outlays were noted to retire debt or to acquire capital assets as the District contracts all of its fire protection operations to the Village of Downers Grove. No restricted assets and no liabilities were documented within the financial statements as reported to the State of Illinois Comptroller's Office and to the DuPage County Clerk. The District is not required to have an audit, as its revenues do not exceed \$850,000 per year. As of May 31, 2010, the District reported an obligation to the Village of Downers Grove of \$43,652 for unpaid fire protection services. This obligation does not appear on the District's balance sheet as a liability as the District follows the cash basis of accounting.
- Due to tax caps, the District will not be able to resolve the unpaid obligation without turning to the voters through a referendum to seek additional funds; however, without the additional funds, the District cannot be considered sustainable, and it is not clear how long the District can continue to operate.
- It is also not clear whether additional obligations are due to the Village of Downers Grove as there has been a change in management at the District recently and information about past issues is unknown to the current Board members.

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Assessment of Boards and Commissions

- The amount that the Village of Downers Grove needs to cover fire protection services on an annual basis were requested from the District. The District was not aware how the Village determines the costs that are necessary to provide services.
- The Board of the District is facing significant governance problems leading to concerns over the sustainability of the District. One of the trustees of the District that served as the secretary and managed the District's affairs for many years passed away. The Board needs a replacement trustee in order to help manage and govern the affairs of the District. Therefore, many questions about the District's finances and other matters could not be addressed by the current Board members.
- The District's net asset balance, as of May 31, 2011, of \$1,297 represents about 7% of the annual expenditures of the District. This level of net assets is significantly below the fund balance policy of DuPage County, which calls for the balance to be about 25% in order to provide adequate reserves to fund operations. Therefore, the balance as of May 31, 2011 is not in line with the County's policy.

The District operates on a May 31, fiscal year end. The District does not have audited financial statements and the information contained in the schedules below are from the District's annual financial reports filed with the State Comptroller's Office and the DuPage County Clerk. The latest financial reports provided by the District were for the year ended May 31, 2011. The tables below present a financial summary of the District for fiscal years 2008 through 2011:

Statement of Net Assets As of May 31st

	2008	2009	2010	2011
Assets				
Cash & Cash Equivalents	\$ 1,760	\$ 1,321	\$ 1,244	\$ 1,297
Total Assets	1,760	1,321	1,244	1,297
Net Assets				
Unreserved	\$ 1,760	\$ 1,321	\$ 1,244	\$ 1,297

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Years Ended May 31st

	2008	2009	2010	2011
Revenues	\$ 15,543	\$ 16,651	\$ 17,686	\$ 17,870
Expenses	14,565	17,090	17,763	17,817
Change in net assets	978	(439)	(77)	53
Net Assets, Beginning of Year	782	1,760	1,321	1,244
Net Assets, End of Year	\$ 1,760	\$ 1,321	\$ 1,244	\$ 1,297

Source: Fairview Fire Protection District Financial Reports for 2008 through 2011.

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Assessment of Boards and Commissions

Organizational Efficiency

- The Fairview Fire Protection District serves only as a taxing body; this is sometimes called a “paper district.” The District levies a property tax and maintains contractual agreement with the Village of Downers Grove to provide fire protection services to its residents. The District does not have any paid staff.

Procurement Methodology

- **Fairview Fire Protection District does not have a Procurement Policy.**

Internal Controls

Ethics

- Fairview Fire Protection District does not have an ethics policy. The District is not in compliance with DuPage County Ordinance OCB-001-11, which requires an ethics ordinance.

Credit Cards

- Fairview Fire Protection District does not have credit cards.

Transparency and Accountability

- The Fairview Fire Protection District does not have a website.
- The District stated they post the schedule of meetings in the newspaper as required by law;⁷ however, when an annual meeting schedule was requested, it was not provided in the requested timeframe.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Board Member Governance

- The Board of the District is facing significant governance problems leading to concerns over the sustainability of the District. One of the trustees of the District that served as the secretary and managed the District’s affairs for many years passed away. The Board needs a replacement trustee in order to help manage and govern the affairs of the District. We recommend that a Board member be appointed to the District to assist with the operations. The District needs Board members that have financial experience in order to guide the affairs of the District.

Develop a Financial Viability Plan

- The District has a structural deficit, and there is doubt about its ability to remain a sustainable entity. We recommend that the District complete further analysis leading to the preparation of a financial viability plan. Without such a plan, there is a doubt that the District can remain a stand-alone entity.

Cost of Fire Protection Services

- The amount that the service provider indicated was necessary to cover fire protection services on an annual basis were requested from the District. The District was not aware of the methodology that the Village of Downers Grove used to determine the cost to provide services to the District. Therefore, it is not clear whether the annual cost of fire protection and ambulance services provided by the Village is based on actual costs of service or based

DuPage County

Assessment of Boards and Commissions

solely on the amount of property taxes levied on the District's taxpayers. We recommend that future contracts with the service providers be based on actual costs of services of the service providers, in accordance with best practices.

Increase Transparency and Accountability

- Provide regular communication to the public and County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between Fairview and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

- The Fairview Fire Protection District does not have a procurement policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

- The Fairview Fire Protection District does not have an ethics policy. We recommend the District adopt an ethics policy that contains all the standards of the DuPage County Ethics Policy in order to comply with County Ordinance OCB-001-11.

While the District does not make major procurements frequently, if such an occasion were to arise, adopting these policies will ensure that the District has the proper internal controls in place.

Structural Recommendations

The following recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate options for alternative service models

Certain options regarding alternative approaches for providing services to the District's taxpayers should be considered by the District. We recommend that the District consider options for providing services under alternative models based on further study. Options for the District to consider include the following:

Annexation

- Facilitate annexation of the District by a municipality (Village of Downers Grove).
- Facilitate Discussions: Help educate & facilitate discussions among residents of the District to explore annexation, its advantages/disadvantages, and other alternatives.

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Shared Services

- Consider cost saving measures to have the Village of Downers Grove act as the fiscal and administrative agent for the District. Activities, including finance, legal, publications, insurance, and supplies could potentially be provided by the Village at a lower cost.

Fee for Service

- Consider dissolving the District and implementing a fee for service model. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.

Annexation or fee for service would remove a taxing body, or shared services could reduce duplicative costs, as well as relieve the County of certain risks associated with the District as the County Board Chairman appoints members to the District's Board. Before pursuing any of the above options, it is important to engage District taxpayers and the Village of Downers Grove in a collaborative discussion to explore the advantages and disadvantages of each option.

Additionally, legislative changes may be required to allow for alternative service delivery methods. The County does not have the power to force the District into any action for annexation of shared services; however, the County may collaboratively provide guidance and assistance with potential facilitation by the Fire Service Stakeholder's Committee which is supported by the County and the DuPage Mayors and Managers Conference.

Conclusion

Based on our analysis, we believe there are significant concerns that will need to be addressed related to the sustainability of the Fairview Fire Protection District.

We are recommending that the District develop a financial viability plan, determine that the taxpayers are paying for services based on actual service provider costs of services, and implement policies over procurement and ethics. Furthermore, we are recommending that the District work with its taxpayers to determine if the District will be better served through annexation, fee for services or if cost savings can be achieved through a shared service model. The County does not have the power to force the District into any action, including annexation, fee for services or shared services; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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¹ “2011 Annual Financial Report” Fairview FPD. 2011. Pg. 3

² “Fairview Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31517/

³ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 9, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁴ “Fairview Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31517/

⁵ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁶ “Office of the Comptroller, Daniel W. Hynes, FY 2010 Annual Financial Report, Special Purpose Long Form” Filed by the DuPage County Clerk for the Fairview Fire Protection District. Nov. 2010. Pg. 9.

⁷ “Interview Notes” Interview with Larry Budnik of Fairview Fire Protection District. November 29, 2011 Pg. 2.

Glenbard Fire Protection District

Background

The Glenbard Fire Protection District serves the unincorporated area between Crescent Blvd. / West St. Charles Road to the North; South Westmore / Meyers Road to the East; Butterfield Road to the South; and the farthest Western point of Illinois Route 53 to the West. Glenbard consists of 2,099 parcels of property¹ and serves a population of approximately 6,235.² The District has a contractual agreement with the Village of Lombard to provide fire and emergency response services to its residents.³ The District has no employees.

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.⁴

Board Composition

The board consists of three trustees that are compensated \$1,000 per year and serve three-year terms. Per provided Board materials, Board meetings are held once per year.⁵

Financial Summary

- In 2010, the District issued a property tax levy of \$309,438 at a rate of 0.1969%.⁶
- The property tax applies to all property within the Glenbard Fire Protection District.
- The District's total expenditures for FY2010 were \$302,644.⁷

Observations

The following observations are derived from our review of documents provided by Glenbard Fire Protection District and best practice research. Trustees from Glenbard Fire Protection District did not attend the facilitated focus group for fire protection districts.

Financial Analysis

Following a review of the District's financial reports and information, several specific concerns have been identified. The following items were noted:

- The amount that the service providers have indicated is necessary to cover fire protection services on an annual basis were requested from the District. The District responded that it levies the maximum amount allowed. The response provided, says:

"Pursuant to an Agreement with the Village, the District pays for the fire services by levying the maximum amount permitted by law and paying that amount (less expenses) to the Village. The District has been told by the Village that the amount paid is less than the actual cost to provide the services to the District."⁸

Based on the response provided, it appears that the Village taxpayers are subsidizing service for the District's taxpayers, but the extent of the subsidy is not known.

- The District's fund balance as of December 31, 2010 was \$8,015, which represents about 3% of the annual expenditures of the District. This level of fund balance is well below the fund balance policy of DuPage County, which calls for the balance to be about 25% in order to provide adequate reserves to fund operations. Therefore, the balance as of December 31, 2010, is not in line with the County's fund balance policy.

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Assessment of Boards and Commissions

- Due to tax caps, we would expect property tax revenue to only marginally increase in future years. Due to the small amount of fund balance, if expenses continue to increase, the District could not be considered sustainable, and it is unclear how long the District could continue to operate.

The District operates on a December 31, fiscal year end. The District does not have audited financial statements, and the information contained in the schedules below is from the District's annual financial reports filed with the State Comptroller's Office and the DuPage County Clerk. The latest financial reports provided by the District were for the year ended December 31, 2010. The tables below present a financial summary of the District for fiscal years 2008 through 2010:

Balance Sheet
For the Fiscal Years Ended December 31st

	2008	2009	2010
Assets			
Cash & Cash Equivalents	\$ 4,776	\$ 6,764	\$ 8,015
Total Assets	\$ 4,776	\$ 6,764	\$ 8,015
Fund Balance			
Unreserved	\$ 4,776	\$ 6,764	\$ 8,015
Total Equity	\$ 4,776	\$ 6,764	\$ 8,015

Statement of Revenue, Expenses and Changes in Fund Balance
For the Fiscal Years Ended December 31st

	2008	2009	2010
Revenue	\$ 289,236	\$ 305,941	\$ 303,895
Expenses	288,458	303,953	302,644
Change in Net Assets	778	1,988	1,251
Fund Balance, Beginning	3,999	4,776	6,764
Fund Balance, End	\$ 4,776	\$ 6,764	\$ 8,015

Sources:

1. Glenbard Fire Protection District Financial Report 2008
2. Glenbard Fire Protection District Financial Report 2009
3. Glenbard Fire Protection District Financial Report 2010

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Assessment of Boards and Commissions

Organizational Efficiency

- The Glenbard Fire Protection District serves only as a taxing body; this is sometimes called a “paper district.” The District levies a property tax and maintains a contractual agreement with the Village of Lombard to provide fire protection services to its residents. The District has some administrative overhead totaling \$9,100 because it pays legal fees, accounting fees, and a stipend to its trustees.⁹

Procurement Methodology

- **Glenbard Fire Protection District does not have a Procurement Policy.**

Internal Controls

Ethics

- The District does maintain an ethics policy; however, upon comparison of the District’s policy to the County’s ethics policy, we found that the policy was did not have information regarding the following items:
 - Political Contribution Limit
 - Prohibited Political Activity
 - Ethics training requirement
 - Contractor disclosure
 - Board disclosure
 - Conflict of interest
 - Future employment
 - Former employment relationships

Credit Cards

- Glenbard Fire Protection District does not issue credit cards.

Transparency and Accountability

- The Glenbard Fire Protection District has a website (<http://www.glenbardfire.org/>) where they post their meeting schedule, meeting agendas and minutes, budget, and other notices.¹⁰

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Cost of Fire Protection Services

- It appears that the annual cost of fire protection and ambulance services provided by the Village of Lombard is not based on actual costs of service. Rather the amount is based upon the maximum property tax that can be levied on the District’s taxpayers. The Village of Lombard has indicated that the cost to service the District is more than what the District is currently paying. We recommend that the District work with the Village of Lombard to determine the actual costs of services. If the cost of service is above the amount that the District can levy due to tax caps, then the District should consider going to a referendum for additional funds.

DuPage County
Assessment of Boards and Commissions

Develop a Financial Viability Plan

- The District has a structural deficit, and there is doubt about its ability to remain a sustainable entity. We recommend that the District complete further analysis leading to the preparation of a financial viability plan. Without such a plan, there is a doubt that the District can remain a stand-alone entity.

Increase Transparency and Accountability

- Provide regular communication to the public and County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between Glenbard Fire Protection District and DuPage County to improve communications, share information and best practices, etc.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

Glenbard Fire Protection District does not have a Procurement Policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Glenbard Fire Protection District **add** the following information to its ethics policy:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Prohibited Political Activity – We recommend adding a provision similar to the one in the Illinois State Officials and Employee Ethics Act (Public Act 93-615)
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Structural Recommendations

The following recommendations apply to the long-term sustainability of the organization and may require a structural change.

Investigate options for alternative service model

Certain options regarding alternative approaches for providing services to the District's taxpayers should be considered by the District. We recommend that the District consider options for providing services under alternative models based on further study. Options for the District to consider include the following:

Annexation

- Facilitate annexation of the District by a municipality (Village of Lombard).
- Facilitate Discussions: Help educate & facilitate discussions among residents of the Glenbard Fire Protection District to explore annexation, its advantages/disadvantages, and other alternatives.
- Aid in annexation process: Provide information and advice on surveying, legal, and other work associated with the annexation and application process.

Shared Services

- Consider cost saving measures to have the Village of Lombard act as a fiscal and administrative agent for the District. Activities, including finance, legal, publications, insurance and supplies, could potentially be provided by the Village at a lower cost.

Annexation or shared services would remove a taxing body, or reduce duplicative costs, as well as relieve the County of certain risks associated with the District as the County Board Chairman appoints members to the District Board. Before pursuing either of the above options, it is important to engage District taxpayers and the Village of Lombard in a collaborative discussion to explore the advantages and disadvantages of each option. Additionally, legislative changes may be required to allow for alternative service delivery methods. The County does not have the power to force the District into any action for annexation or shared services; however, the County may collaboratively provide guidance and assistance with potential facilitation by the Fire Service Stakeholders committee which is supported by the County and the DuPage Mayors and Managers Conference.

Conclusion

Based on our analysis, we believe there are significant concerns that will need to be addressed related to the sustainability of the Glenbard Fire Protection District.

We are recommending that the District determine that the taxpayers are paying for services based on actual service provider costs of services and implement policies over procurement and ethics. Furthermore, we are recommending that the District work with its taxpayers to determine if the District will be better served through annexation or if cost savings can be achieved through a shared service model. The County does not have the power to force the District into any action, including annexation or shared services; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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Assessment of Boards and Commissions

¹ “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.

² “2010 Annual Financial Report” Glenbard FPD. 2010. Pg. 3

³ “Glenbard Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31520/

⁴ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 9, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁵ “Notice of Regular Meeting of Glenbard Fire Protection District” Glenbard Fire Protection District. Not Dated.

⁶ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁷ “Office of the Comptroller, Daniel W. Hynes, FY 2010 Annual Financial Report, Special Purpose Long Form” Filed by the DuPage County Clerk for the Glenbard Fire Protection District. July 5, 2011. Pg. 5.

⁸ Email Response from District Attorney, Maureen Strauts. February 14, 2012

⁹ “Ordinance No. 83 2011 Budget and Appropriation Ordinance” Glenbard Fire Protection District. September 27, 2011. Pg. 2.

¹⁰ “Glenbard Fire Protection District” Glenbard Fire Protection District Website. Accessed Jan. 9, 2012.

<http://www.glenbardfire.org/>

Naperville Fire Protection District

Background

The Naperville Fire Protection District is responsible for providing emergency response fire service to unincorporated areas of Naperville and Aurora. The District consists of 2,615 parcels of property¹ and approximately 141,853 residents.² The District has a contractual agreement with both the City of Naperville and the City of Aurora to provide fire and emergency medical services to its residents.³

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.⁴

Board Composition

The board consists of three trustees, two appointed by the DuPage County Board Chairman and one appointed by Will County. They are compensated \$1,250 per year and serve three-year terms. Per provided Board materials, Board meetings are held five times per year.⁵

Financial Summary

- In 2010, the District issued a property tax levy of \$762,559 at a rate of 0.2961%.⁶
- The property tax applies to all property within the Naperville Fire Protection District, which includes unincorporated areas of Naperville and Aurora.
- The District's total expenditures for FY2010 were \$1,037,409.⁷

Observations

The following observations are derived from interviews with the Naperville Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

Several specific matters were noted with regard to the District's financial position:

- There was a large year-end cash balance, which exceeded total expenditures in each of the past three fiscal years through April 30, 2011. At the end of each of the last three fiscal years, the cash balance exceeded \$1 million. However, there also was a large liability due to other governmental agencies of over \$877,000 as of April 30, 2011. The District provided a response to this matter indicating that there is a timing difference of when the service providers invoice the District for services, which causes the large cash and corresponding liability balances. The City of Aurora bills the District in one annual installment that is typically paid during the month of October. The City of Naperville bills in three installments (August 40% / December 20% / February 40%).⁸
- The financial statements of the District at April 30, 2011 were audited and an unqualified opinion was rendered; however, the financial statements were not prepared in accordance with generally accepted accounting principles. Significant financial statement disclosures are missing from the notes to the financial statements and the financial statements were not presented in accordance with standards as prescribed by the Government Accounting Standards Board (GASB). Therefore, it is not possible to determine if the financial condition of the District has been presented in accordance with industry standards and practices. This matter has been discussed by the District's auditor, and the auditor has indicated that items noted will be addressed in the next audit of the April 30, 2012 financial statements.

DuPage County

Assessment of Boards and Commissions

- The amount that the service providers have indicated is necessary to cover fire protection services on an annual basis were requested from the District. The District responded that the Cities of Naperville and Aurora invoice the District based on the District's property tax levy. The response provided, says:

“On an annual basis, the City of Naperville and City of Aurora each bill the NFPD the amount that is equal to all taxes that were received by the NFPD after allowing for payment of annual trustee public official bonds expenses, annual trustee fees, annual legal publication expenses, annual dues to the Illinois Association of Fire Protection Districts, Annual postage and legal expenses, and miscellaneous expenses of \$1,000.00 per year. Naperville and Aurora each bill the NFPD based upon the levy amount generated in their respective service areas. The May 1, 2011 to April 30, 2012 budget year depicts a payment of \$1,013,513.89 to the City of Naperville and \$34,695.74 to the City of Aurora. The levy is based on 105% of the previous year's levy pursuant as required under the service contracts with Aurora and Naperville.”⁹

The District did indicate it has discussed the actual cost of service with the city Finance Director, City Manager, and Fire Chief. They have been assured the cost of fire protection services is compatible between the District and city residents.¹⁰

- The District's net asset balance as of April 30, 2011, of \$285,664 represents about 27% of the annual expenditures of the District. This level of net assets is comparable to the fund balance policy of DuPage County, which calls for the balance to be about 25% in order to provide adequate reserves to fund operations. Therefore, the balance as of April 30, 2012, is in line with the County's policy. The District maintains a fund balance policy to reserve funds in the event the District's service contract is terminated. The reserve fund allows appropriate funds to enter a new service agreement.¹¹

DuPage County

Assessment of Boards and Commissions

The District operates on an April 30, fiscal year end. The latest audited financial statements are for the year ended April 30, 2011. The Tables below present a financial summary of the District for fiscal years 2009 through 2011:

Statement of Net Assets
As of April 30,

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Current Assets			
Cash	\$ 1,136,676	\$ 1,143,809	\$ 1,166,745
Capital Assets			
Computers and Software	-	3,029	3,029
Less Accumulated Depreciation	-	(62)	(681)
Undepreciated Costs	-	2,967	2,348
Total Assets	<u>1,136,676</u>	<u>1,146,776</u>	<u>1,169,093</u>
Liabilities			
Accrued Expenses	6,250	6,250	6,250
Due to other governmental agencies within 1 yr	852,696	857,020	877,179
Total Liabilities	<u>858,946</u>	<u>863,270</u>	<u>883,429</u>
Net Assets			
Unrestricted	277,730	283,506	285,664
Total Net Assets	<u>\$ 277,730</u>	<u>\$ 283,506</u>	<u>\$ 285,664</u>

DuPage County
Assessment of Boards and Commissions

Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended April 30,

	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Expenses			
Disbursements to Cities	\$ 997,755	\$ 1,014,900	\$ 1,034,187
Legal Fees	12,459	9,068	6,684
Accounting & Audit Fees	8,070	8,438	7,782
Trustee Fees	3,750	3,750	3,750
Publication Expense	1,644	1,091	846
Depreciation Expense	-	62	619
Insurance Expense	2,523	100	225
Office Supplies	-	-	65
Total General Expenses	<u>1,026,201</u>	<u>1,037,409</u>	<u>1,054,158</u>
General Revenue			
Receipts from Counties and State	1,026,201	1,040,376	1,054,158
Investment Earnings	8,332	2,809	2,158
Total General Revenues	<u>1,034,533</u>	<u>1,043,185</u>	<u>1,056,316</u>
Increase in Net Assets	8,332	5,776	2,158
Net Assets, Beginning of Year	<u>269,398</u>	<u>277,730</u>	<u>283,506</u>
Net Assets, End of Year	<u>\$ 277,730</u>	<u>\$ 283,506</u>	<u>\$ 285,664</u>

Sources:

1. Naperville FPD Audited Financial Statement 2011 and 2010
2. Naperville FPD Audited Financial Statement 2010 and 2009

Organizational Efficiency

- The Naperville Fire Protection District serves only as a taxing body; this is sometimes called a “paper district.” The District levies a property tax and maintains contractual agreement with the Cities of Naperville and Aurora to provide fire protection services to its residents. The District has some administrative overhead, as it pays legal, accounting and audit, and trustees fees which totaled approximately \$24,000 in fiscal year ending 2011.¹²

Procurement Methodology

- **Naperville Fire Protection District does not have a formal procurement policy.**

Internal Controls

Ethics

- The District adopted the DuPage County Ethics Ordinance on September 10, 2011, upon passage of County Ordinance OCB-001-11.¹³

DuPage County

Assessment of Boards and Commissions

Credit Cards

- Naperville Fire Protection District does not have credit cards.

Transparency and Accountability

- Naperville Fire Protection District does not have a website.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

District Financial Statements

- The District's financial statements were not prepared in accordance with generally accepted accounting principles. Significant financial statement disclosures are missing from the notes to the financial statements and the financial statements were not presented in accordance with standards as prescribed by the Government Accounting Standards Board (GASB). We recommend that the District work with its auditor to improve the financial statements for the year ending April 30, 2012.

Cost of Fire Protection Services

- The amount that the service providers have indicated is necessary to cover fire protection services on an annual basis were requested from the District. The District responded that the Cities of Naperville and Aurora invoice the District based on the District's property tax levy. Therefore, it is not clear that the annual cost of fire protection and ambulance services provided by each respective city are based on actual costs of service. We recommend that future contracts with the service providers be based on actual costs of services of the service providers, in accordance with best practices.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Naperville Fire Protection District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

Naperville Fire Protection District does not have a Procurement Policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Structural Recommendations

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate options for alternative service models

Certain options regarding alternative approaches for providing services to the District's taxpayers should be considered by the District. We recommend that the District consider options for providing services under alternative models based on further study. Options for the District to consider include the following:

Annexation

- Facilitate annexation of the District by a municipality (Cities of Naperville and Aurora).
- Facilitate Discussions: Help educate & facilitate discussions among residents of the District to explore annexation, its advantages/disadvantages, and other alternatives.

Shared Services

- Consider cost saving measures to have one of the cities, Naperville or Aurora, act as fiscal and administrative agents for the District. Activities, including finance, legal, publications, insurance and supplies, could potentially be provided by one of the cities at a lower cost.

Fee for Service

- Consider dissolving the District and implementing a fee for service model. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.

Annexation or fee for service would remove a taxing body, or shared services could reduce duplicative costs, as well as relieve the County of certain risks associated with the District as the County Board Chairman appoints members to the District's Board. Before pursuing any of the above options, it is important to engage District taxpayers and the Cities of Naperville and Aurora in a collaborative discussion to explore the advantages and disadvantages of each option. Additionally, legislative changes may be required to allow for alternative service delivery methods. The County does not have the power to force the District into any action for annexation or shared services; however, the County may collaboratively provide guidance and assistance with potential facilitation by the Fire Service Stakeholders Group, which is supported by the County and the DuPage Mayors and Managers Conference.

Conclusion

The Naperville Fire Protection District is considered a financially stable organization based on its April 30, 2011 audited financial statements. However, since the District is dependent upon the Cities of Naperville and Aurora for fire and ambulance services, if the costs passed along to the District increase significantly the stability of the District could be questioned. Since the District's primary revenue source is property taxes, the District will not likely be able to increase the tax levy over statutory limits without voter approval.

We are recommending that the District correct its audited financial statements, determine that the taxpayers are paying for services based on actual service provider costs of services, and implement a policy regarding procurement practices. Furthermore, we are recommending that the District work with its taxpayers to determine if the District will be better served through annexation or if cost savings can be achieved through a shared service model. The County does not have the power to force the District into any action, including annexation, fee for services or shared services; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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Assessment of Boards and Commissions

¹ “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.

² “2011 Annual Financial Report” Naperville FPD. 2011 Pg. 3

³ “Naperville Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31564/

⁴ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 9, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁵ “RE: Naperville Fire Protection District Management Information Ordinance Compliance” Letter to Dan Cronin from Vincent M. Rosanova. September 15, 2011. Pg. 2.

⁶ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁷ “Audited Financial Statements for the Years Ended April 30, 2010 and 2011” Naperville Fire Protection District. Sept 15, 2011. Pg. 6.

⁸ Call with District Auditor

⁹ Email from Vincent Rosanova February 16, 2012.

¹⁰ “RE: Naperville FPD Follow-up Questions” Email from Vince Rosanova. April 17, 2012.

¹¹ “RE: Naperville FPD Follow-up Questions” Email from Vince Rosanova. April 17, 2012.

¹² “Naperville Statement of Cash Receipts and Disbursements” Naperville Fire Protection District. October 14, 2010. Pg. 4

¹³ “RE: Naperville FPD Follow-up Questions” Email from Vince Rosanova. April 17, 2012.

North Westmont Fire Protection District

Background

The North Westmont Fire Protection District is responsible for providing emergency response fire service to unincorporated Westmont. The District consists of 561 parcels of property¹ and approximately 4,000 residents.² The board governs the affairs and business of the fire protection district. The district contracts with the Village of Westmont to provide services to its residents.³

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.⁴

Board Composition

The board consists of three trustees that are compensated \$1,000 per year and serve three-year terms. According to the District, Board meetings are held six times per year, but this could not be verified with a published schedule of board meetings. The board also employs a secretary and clerk that are each paid \$250 per year.⁵

Financial Summary

- In 2010, the District issued a property tax levy of \$40,715 at a rate of .0997%.⁶
- The property tax applies to all property within the North Westmont Fire Protection District, which includes unincorporated Westmont.
- The District's total expenditures for FY2010 were \$22,759.⁷

Observations

The following observations are derived from our review of documents provided by the North Westmont Fire Protection District and best practice research. Trustees from North Westmont Fire Protection District did not attend the facilitated focus group for fire protection districts.

Financial Analysis

Based on our review of the District's financial reports and information for the fiscal years 2008 through 2012 and budget documentation for the 2012 fiscal year, several specific concerns have been identified. The following items were noted:

- The District's 2012 budget has just over \$40,000 in revenue, yet has budgeted to spend over \$104,000. The District has planned to spend about \$64,000 of cash reserves to fund the excess of expenditures over revenues. When asked why the annual appropriation was significantly higher than annual expenditures, the Districted responded:

"Since the District is not directly involved in fire protection activities, the Board has cut expenditures for seminars, office supplies, dues and conventions. In addition, the Westmont Fire Department has not utilized its entire allotment for equipment under the system of allotments...Note also that the District has allocated \$50,000 for the purchase of an ambulance or a command center vehicle for the Westmont Fire Department, which is why the equipment budget for the fiscal year 2011 – 2012 is significantly higher."

A budget and appropriation should provide a plan to guide spending for the District for the year, and provide the public with information about how tax monies are going to be spent.

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Therefore, there are several matters in the District's budget that are not consistent with operations, including budgets for items that do not apply. This includes employee related costs such as seminars or office supplies even though the District does not have employees, auditing even though there is no audit, and other line items that are not expected to incur actual expenditures. In the 2012 budget, printing, postage and supplies, office supplies, membership dues and conventions, office equipment, and conference and meeting expenses totaled approximately \$10,000, which is two times the amount of \$5,000 that the District is planning to pay for fire protection services. In addition, it is not clear why the District would purchase equipment for the Village of Westmont, since the asset will be provided to the Village.

- The District's cash balance (equivalent to fund balance since the District does not have other assets or liabilities) as of May 31, 2010 was \$122,527, which represents about 550% of the fiscal year 2011 expenditures of the District. This level of fund balance is well above the fund balance policy of DuPage County, which calls for the balance to be about 25% in order to provide adequate reserves to fund operations. Part of the reason for this large cash balance on hand for the District is based on how the District funds its fire protection services. Specifically, the District does not fund its fire services based on a direct fee for service arrangement with the Village Westmont. Instead, the District pays a nominal amount for fire protection services and periodically purchases assets for the Village of Westmont.
- The amount that the service provider (Village of Westmont) has indicated is necessary to cover fire protection services on an annual basis were requested from the District. The District responded that the amount the Village of Westmont has indicated is necessary to cover fire protection services on an annual basis is \$30,000. However, it was noted that the District only paid the Village of Westmont \$5,000 each fiscal year from 2008 through 2010 and only budgeted to pay the Village \$5,000 for fiscal year 2012. When we asked the District if they paid the Village \$5,000 each fiscal year, they responded:

“Yes, the District pays the Village \$5,000 annually in June. In addition, the District provides firefighting related equipment based on specific requests made by the Westmont Fire Department. The Department selects and suggests equipment purchases to the District and based on these selections and suggestions, the District approves the purchases and directly pays the invoices for the purchases. Typically, the amount appropriated each year for equipment is \$25,000.”

Based on this response, there is not a clear and direct association between the amount paid each year by the District and the actual cost of services provided to the District by the Village of Westmont. This current model of paying significantly less than the stated cost of actual services, but then funding periodic equipment purchases lacks transparency as it is difficult to tie the benefit of equipment purchased back to the District.

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The District operates on a May 31st fiscal year end. The District does not have audited financial statements, and the information contained in the schedules below are from the Districts annual financial reports filed with the State Comptroller's Office and the DuPage County Clerk. The latest financial reports provided by the District were for the year ended May 31, 2010. The Tables below present a financial summary of the District for fiscal years 2008 through 2010 and for the District's 2012 budget:

Statement of Revenues, Expenditures and Change in Cash Position
For the Fiscal Years Ended May 31st 2008 through 2010 and for the Fiscal Year Ending May 31, 2012

	2008 Actual	2009 Actual	2010 Actual	2012 Budget
Cash on Hand, Beginning of Year	\$ 76,810	\$ 95,488	\$ 103,185	\$ 115,078
Revenues:				
Property Taxes	42,251	41,980	41,832	40,300
Other Receipts	418	444	320	500
Total Revenue	42,669	42,424	42,152	40,800
Expenditures:				
Purchase of Firefighting Equipment	-	-	-	75,000
Contract for Fire Protection and Ambulance Services	5,000	5,000	5,000	5,000
Printing Postage and Supplies	-	-	-	200
Legal Expense and Bond Premiums	-	-	-	2,000
Membership Dues and Conventions	-	-	-	7,300
Insurance	-	-	-	3,000
Mutual Aid and Training	-	-	-	400
Office Equipment	-	-	-	500
Conference and Meeting Expense	-	-	-	2,000
Auditing	-	-	-	1,000
Community Fire Educational Expenses	-	-	-	500
Salary of Trustees	-	-	-	3,000
Compensation of Attorney	-	-	-	2,000
Salary of Secretary	-	-	-	250
Salary of Treasurer	-	-	-	250
Salary of Recording Secretary	-	-	-	500
Provision for Contingencies	-	-	-	2,000
Expenditures (no details provided)	18,991	29,727	17,760	
Total Expenditures	23,991	34,727	22,760	104,900
Revenues over (under) Expenditures	18,678	7,697	19,392	(64,100)
Cash on Hand, End of Year	\$ 95,488	\$ 103,185	\$ 122,577	\$ 50,978

Organizational Efficiency

- The North Westmont Fire Protection District levies a property tax and maintains contractual agreement with the Village of Westmont to provide fire protection services to its residents. A district that serves as a taxing body and contracts with another organization to provide services is sometimes called a "paper district." In the past, the District has also purchased equipment for the Village of Westmont to use in their fire protection services.

Procurement Methodology

- **North Westmont Fire Protection District does not have a procurement policy.**

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Internal Controls

Ethics

- North Westmont Fire Protection District does not have an ethics policy.

Credit Cards

- The North Westmont Fire Protection District does not have any credit cards.

Transparency and Accountability

- North Westmont Fire Protection District does not have a website.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Review budgeting and expenditure projection methodology

- The District should review the current budget methodology and practices and consider removing line items that are not expected to have actual expenditures. This includes removing line items such as office supplies, seminars, conferences and meetings from the budgeting process. This will help align the budget to the actual expenditures incurred by the District.

Cost of Fire Protection Services

- The annual fee paid by the District for fire protection and emergency medical services provided to the Village of Westmont is not based on actual costs of service. We recommend that future contracts with the service provider be based on actual cost of services of the service provider, in accordance with best practices. This practice will better align the payments from the District to the Village for its services and remove the purchasing of equipment or other capital assets for the Village, because these capital costs would be built into the cost for service fee charged to the District.

Develop a Financial Viability Plan

- Though the District has a large cash on hand balance at the end of fiscal year 2010, due to the nature of the service arrangement with the Village of Westmont, it is not clear how much is expected to be expended on equipment for the Village and what impact this will have on their current cash balance. For this reason, we recommend that the District complete further analysis leading to the preparation of a financial viability plan.

Increase Operational Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the North Westmont Fire Protection District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

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Implement Internal Controls Policies

Procurement

North Westmont Fire Protection District does not have a Procurement Policy; therefore, we recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

North Westmont Fire Protection District does not have an Ethics Policy; therefore, we recommend the District adopt an ethics policy that contains all the standards of the DuPage County Ethics Policy.

Structural Recommendations

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate options for alternative service models

Certain options regarding alternative approaches for providing services to the District's taxpayers should be considered by the District. We recommend that the District consider options for providing services under alternative models based on further study. Options for the District to consider include the following.

Annexation

- Facilitate annexation of the District by a municipality (Village of Westmont).
- Facilitate Discussions: Help educate & facilitate discussions among residents of unincorporated Westmont to explore annexation, its advantages/disadvantages, and other alternatives.

Shared Services

- Consider cost saving measures to have the Village of Westmont act as the fiscal and administrative agent for the District. Activities, including finance, legal, publications, insurance and supplies, could potentially be provided by the Village at a lower cost.

Fee for Service

- Consider dissolving the District and implementing a fee for service model. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.

Annexation or fee for service would remove a taxing body, or shared services could reduce duplicative costs, as well as relieve the County of certain risks associated with the District as the County Board Chairman appoints members to the District's Board. Before pursuing either any of the above options, it is important to engage District taxpayers and the Village of Westmont in a collaborative discussion to explore the advantages and disadvantages of each option. Additionally, legislative changes may be required to allow for alternative service delivery methods.

The County does not have the power to force the District into any action for annexation, fee for services or shared services; however, the County may collaboratively provide guidance and assistance with potential facilitation by the Fire Service Stakeholders Group, which is supported by the County and the DuPage Mayors and Managers Conference.

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Conclusion

The North Westmont Fire Protection District is considered a financially stable organization based on its May 31, 2010 annual financial reports. However, since the District is dependent upon the Village of Westmont for fire and ambulance services, if the costs passed along to the District increase significantly, the stability of the District could be questioned. Since the District's primary revenue source is property taxes, the District will not likely be able to increase the tax levy over statutory limits without voter approval.

We are recommending that the District determine if the taxpayers are paying for services based on actual service provider costs of services. Currently, there is not a clear and direct association between the amount paid each year by the District and the actual cost of services provided to the District by the Village of Westmont. The current model of paying significantly less than the stated cost of actual services, but then providing periodic equipment purchases lacks transparency as it is difficult to tie the benefit of equipment purchased back to the District.

Furthermore, we recommend that the District implement policies over procurement and ethics and work with its taxpayers and determine if the District will be better served through annexation, or if cost savings can be achieved through a shared service model. The County does not have the power to force the District into any action, including annexation, fee for services or shared services; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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¹ “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.

² “2011 Annual Financial Report” North Westmont FPD. 2011. Pg. 3

³ “North Westmont Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31565/

⁴ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 9, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁵ “North Westmont Fire Protection District” DuPage County Website. Accessed Jan. 9, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31565/

⁶ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁷ “Office of the Comptroller, Daniel W. Hynes, FY 2010 Annual Financial Report, Special Purpose Long Form” Filed by John Tannahill, Treasurer for the North Westmont Fire Protection District. Nov. 25, 2010. Pg. 4.

Roselle Fire Protection District

Background

The Roselle Fire Protection District is responsible for providing emergency response fire service and emergency medical services to areas of unincorporated Roselle and Itasca. The District consists of 863 parcels of property.¹ The Fire Protection District has an intergovernmental agreement with the Village of Roselle for provision of fire protection and emergency medical services to residents and properties within the District's boundaries.²

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.³

Board Composition

The board consists of three trustees, two that are appointed by the DuPage County Board Chairman and one appointed by Cook County. They are compensated \$3,000 per year and serve three-year terms. Per provided Board materials, Board meetings are held once per month.⁴

Financial Summary

The Roselle Fire Protection District normally has a limiting rate of 0.25, which produces a tax extension of \$430,000. Two years ago, the board submitted to the voters a referendum that raised the limiting rate for four years to an average of 0.5. According to District representatives, the District has historically produced a tax extension of less than \$800,000 and as a result has never had an external audit performed.⁵ The District is undergoing its first external audit. The audit report was to be sent but has not been received at this time.

- In 2010, the District issued a property tax levy of \$ 501,329 at a rate of .5006%.⁶
- The property tax applies to all property within the Roselle Fire Protection District, which includes areas of unincorporated Roselle and Itasca.
- The District's operating budget for FY2011 is \$950,000.⁷

Observations

The following observations are derived from interviews with the Roselle Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

The following matters were noted with the District:

- The District's budget was \$950,000 and appropriation was \$1,167,020 for the year ended December 31, 2011. The budget expected to receive \$900,000 in taxes during the year ended December 31, 2011. When asked about the difference in the budget and the appropriations, the District responded that it was anticipating paying the Village of Roselle for all arrears and future planning, as the limiting rate increase was only temporary. The District is not proposing an increase in its budget, but is expected to have a decrease in revenue due to the limiting rate returning to 0.25 over the next couple of years.⁸ However, upon further review of the budget and appropriation ordinance, every line item was higher than budgeted and the appropriation for fire protection was about \$175,000 greater than the budget. Therefore, we are not able to corroborate the District's representation. The budget and appropriation should provide more transparency and accountability of the District's intent for its spending plan.

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- The unsigned agreement, effective from January 1, 2010 through January 1, 2013, provided by the District refers to an obligation of \$93,626 from the District to the Village of Roselle for 2008. The agreement also refers to a shortfall for 2009; however, no amount has been presented within the agreement. The scanned signed documents were to be submitted to the County at a later date; however, the formal agreement has not been provided to the County for review. In subsequent correspondence from the District, representations have been made that the District is current with past due balances to the Village of Roselle; however, we are unable to substantiate that the District is current.
- It is not clear how the annual cost of fire protection and emergency medical services provided by the Village of Roselle is determined. The District stated the annual cost to the District is estimated between \$700,000 and \$800,000, but varies.⁹ It is unclear if costs are actual costs of service, or based solely on the amount of property taxes levied on the District's taxpayers.
- The District's attorney represented that the District has not received over \$800,000; therefore, no annual audit was required. The attorney did represent that the District was currently undergoing an audit and the audit will be provided to the County when completed. Such an audit has not been provided to the County for review at this time.
- The District did not provide annual financial reports to the County in accordance with ordinance #OCB-001-11. These reports are required to be filed with the State Comptroller's Office and the Cook and DuPage County Clerks in accordance with State Statute. We were able to access the District's Annual Financial Reports via the State of Illinois Comptroller's website. These reports provided a limited look into the financial condition of the District.
- The District had an \$188,488 adjustment in fiscal year 2010 to reduce beginning fund balance. It is unclear the nature and cause of this adjustment. This adjustment drastically reduced the District's fund balance and cash on hand balance. The Annual Financial Report for the District indicated that this adjustment was to adjust the non-audited beginning balance to the audited beginning balance. However, an audit for fiscal year 2010 was not provided by the District. Therefore, we were unable to determine the reason that the financial position was significantly overstated.
- The 2011 Budget Ordinance for the District has an inaccurate calculation of expected cash on hand for the fiscal year ended December 31, 2011. Specifically, the budget states that cash on hand at the beginning of the fiscal year is expected to be \$4,200, cash expected to be received during the year from all sources is \$900,000, cash expenditures contemplated for the year is \$950,184 and estimated cash on hand at the end of the fiscal year is \$50,000. Based on the beginning cash, estimated revenues and expenses, we calculate that cash on hand at the end of the fiscal year would be a negative \$45,984. Therefore, the District appears to have proposed a deficit budget for 2011.

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The District operates on a December 31st fiscal year end. The District did not provide audited financial statements. The financial information contained in the schedules below is from the District's annual financial reports that we obtained directly from the State Comptroller's Office website. The latest financial reports that were on the website were for the fiscal year ended December 31, 2010. The tables below present a financial summary of the District for fiscal years 2008 through 2010 and for the District's 2011 budget:

Balance Sheet
Actuals as of December 31st, 2008, 2009 and 2010

	2008	2009	2010
Assets			
Cash & Cash Equivalents	\$ 200,266	\$ 221,417	\$ 34,781
Total Assets	\$ 200,266	\$ 221,417	\$ 34,781
Fund Balance			
Unreserved	\$ 200,266	\$ 221,417	\$ 34,781
Total Equity	\$ 200,266	\$ 221,417	\$ 34,781

Statement of Revenue, Expenses and Changes in Fund Balance
Actuals for the Fiscal Years Ended December 31, 2008, 2009, 2010
and the Budget for Fiscal Year 2011

	Actuals			Budget
	2008	2009	2010	2011
Revenue	\$ 425,021	\$ 434,358	\$ 837,942	\$ 900,000
Expenses	490,853	413,207	836,090	950,184
Change in Net Assets	(65,832)	21,151	1,852	(50,184)
Fund Balance, Beginning	266,098	200,266	221,417	34,781
Prior Period Adjustment*	-	-	(188,488)	-
Fund Balance, End	\$ 200,266	\$ 221,417	\$ 34,781	\$ (15,403)

* To adjust non-audited beginning balance amount to audited beginning balance amount.

Organizational Efficiency

- The Roselle Fire Protection District serves only as a taxing body; this is sometimes called a "paper district." The District levies a property tax and maintains contractual agreement with the Village of Roselle to provide fire protection services to its residents. The District has some administrative overhead, as it pays for computer maintenance, publications and

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copying, records, travel and education, bookkeeping, office supplies, trustee compensation and accounting and legal services totaling approximately \$42,700.¹⁰

- Initial documentation provided to the County stated the District had no employees.¹¹ During later follow-up questions, the District's attorney stated the District had 12 employees.¹² Requests for clarification went unanswered by the District in the required five days. We were able to clarify that the District does not directly have any employees. The Roselle Fire Department, with whom the District contracts for services, employs all firefighters and medics.

The determination on the number of employees does have a bearing on the Trustee compensation amounts. According to the District's Budget and Appropriation Ordinance, the only compensation listed was for Trustee Compensation. The District budgeted \$9,000 (3 trustees) and appropriated \$12,000. If the District does have 12 employees, the employee compensation should be clearly noted in the appropriation ordinance. We were able to subsequently confirm that the District does not have employees.

Procurement Methodology

- **Roselle Fire Protection District does not have a procurement policy.**

Internal Controls

Ethics

- The District does maintain an ethics policy; however, upon comparison of the District's Ethics Policy to the County's Ethics Policy, we found that the policy was missing information regarding the following items:
 - Political Contribution Limit
 - Ethics training requirement
 - Contractor disclosure
 - Board disclosure
 - Conflict of interest
 - Future employment
 - Former employment relationships

Credit Cards

- Roselle Fire Protection District's has one credit card and a credit card policy, according to representations made by the District.¹³ The credit card policy contains the following limiting measures:
 - Credit card purchases must comply with the District purchasing policy.
 - All purchases must benefit and support the District and public service.

Transparency and Accountability

- Roselle Fire Protection District does not have a website.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Comply with 70 ILCS 705/6 for compensation of board members

- Illinois statute indicates that in a district having fewer than 4 full time paid firefighters, trustees are to be paid a sum not to exceed \$1,000 per annum. Trustees for the Roselle Fire Protection District are paid \$3,000 per annum. According to a response received from the District's attorney,

“Yes the board members are paid \$3,000 per year. The District prior to 1991 operated the fire department and contracted services to the Village of Roselle. Around 1991 the District and Village reversed rolls. The district still has a fire department with more than 12 employees and is by statute allowed \$2,000 per trustee for fire services and up to 50% of that amount (\$1,000) for ambulance service. It appears that the Roselle trustees have been receiving this amount for over 20 years and are by statute permitted to do so.”

However, it has been confirmed that the District does not have any direct employees. The 12 employees mentioned previously, are employed by the Roselle Fire Department.

- Trustee compensation should be adjusted to comply with state statute. In addition, the District and the County should review the matter to determine if there are violations of State Statute and determine what necessary actions are necessary to remedy the matter. If it is determined that this matter violates State Statute, it would result in annual overpayments to Trustees of \$6,000 per year since 1991.

Cost of Fire Protection Services

- It is not clear that the annual cost of fire protection and emergency medical services provided by the Village of Roselle are based on actual costs of service or based solely on the amount of property taxes levied on the District's taxpayers. We recommend that future contracts with the service providers be based on actual costs of services of the service providers, in accordance with best practices.

Compliance with County Ordinance OCB-001-11

- The District did not comply with several requests for further information related to the study we conducted. The District was required to comply with County Ordinance OCB-001-11 by providing information within 5 business days of the request. As part of our study, we requested information regarding personnel, annual audit, annual financial reports, final ordinances, service provider agreements and responses to questions. We did not receive such requested information nor did the District respond that they did not have such an analysis within the required 5 business days of the request for information. We recommend that the District comply with requirements of the County Ordinance.

Increase Transparency and Accountability

- The District must provide greater transparency and accountability to the public and to the County. No financial information was provided to the County and the District has indicated that it is conducting an audit, however, no audit has been provided to date. We recommend that the District provide financial information to the public to demonstrate compliance with appropriate filing requirements.
- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Roselle Fire Protection District and DuPage County to improve communications, share information and best practices, etc.

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- Post meeting information and other documentation online by utilizing the County's website

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

Roselle Fire Protection District does not have a procurement policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County procurement policy.

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Roselle Fire Protection District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Credit Cards

Roselle Fire Protection District does have a policy on the distribution and use of credit cards; however, we recommend that the District further limit its use of credit cards by adding the following information:

- Names of the credit card authorized
- Positions authorized to use credit cards. Credit cards should only be used by employees with a reasonable need for use.

While the credit card policy limits the use of credit cards, we recommend the District evaluate the need and justification for the use of credit cards. The District serves as a paper district, thus operations consist of levying a tax, collecting tax revenue, and contracting services with the Village of Roselle. A District credit card does not seem to be warranted.

Structural Recommendations

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate options for alternative service models

Certain options regarding alternative approaches for providing services to the District's taxpayers should be considered by the District. We recommend that the District consider options for providing services under alternative models based on further study. Options for the District to consider include the following:

Annexation

- Facilitate annexation of the District by a municipality (Village of Roselle and/or Itasca).
- Facilitate Discussions: Help educate & facilitate discussions among residents of the District to explore annexation, its advantages/disadvantages, and other alternatives.

Shared Services

- Consider cost saving measures to have Villages of Roselle or Itasca act as fiscal and administrative agents for the District. Activities, including computer maintenance, publications and copying, records, travel and education, bookkeeping, office supplies, and accounting and legal services, could potentially be provided by the Village at a lower cost.

Fee for Service

- Consider dissolving the District and implementing a fee for service model. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.

Annexation or fee for service would remove a taxing body, or shared services could reduce duplicative costs, as well as relieve the County of certain risks associated with the District as the County Board Chairman appoints members to the District's Board. Before pursuing any of the above options, it is important to engage District taxpayers and the Village of Roselle in a collaborative discussion to explore the advantages and disadvantages of each option. Additionally, legislative changes may be required to allow for alternative service delivery methods. The County does not have the power to force the District into any action for annexation, shared services, or fee for service model; however, the County may collaboratively provide guidance and assistance with potential facilitation by the Fire Service Stakeholders Committee which is supported by the County and the DuPage Mayors and Managers Conference.

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Assessment of Boards and Commissions

Conclusion

Based on our analysis we believe there are significant concerns that will need to be addressed related to the compliance of the Roselle Fire Protection District with local ordinances and State Statutes. The District did not comply with DuPage County Ordinance by submitting to requests for information in a timely manner. The District did not submit any financial information for our review, therefore, we were limited to information we could obtain from the State of Illinois Comptroller's website. The District appears to be out of compliance with State Statute regarding trustee compensation. Based on this information, we believe there are significant financial concerns that will need to be addressed related to the sustainability of the Roselle Fire Protection District. If the District is not willing to work with the County, then new leadership for the District should be considered. In addition, the County may need to seek legislative change if the District fails to act on its own. It is important for the County to continue the dialog with the District to potentially avoid further compliance issues.

Furthermore, we are recommending that the District work with its taxpayers to determine if the District will be better served through annexation, fee for services or if cost savings can be achieved through a shared service model. The County does not have the power to force the District into any action, including annexation or shared services; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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¹ “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.

² “Roselle Fire Protection District” DuPage County Website. Accessed Jan. 10, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31566/

³ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 10, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁴ “No. 10- An Ordinance Setting Forth the Schedule of Regular Meetings for the Fiscal Year 2011” Roselle Fire Protection District. Not Dated.

⁵ “Re: County Ordinance OCB-001-11” Gerald T. Dietz, Attorney for Roselle Fire Protection District. Sept. 28, 2011.

⁶ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁷ “Combined Annual Budget and Appropriation Ordinance of the Roselle Fire Protection District for the Fiscal Year 2011” Roselle Fire Protection District. March 17, 2011. Pg. 4.

⁸ Email from Gerald Dietz, Roselle FPD Attorney. February 28, 2012.

⁹ Email from Gerald Dietz, Roselle FPD Attorney. February 28, 2012.

¹⁰ “Combined Annual Budget and Appropriation Ordinance of the Roselle Fire Protection District for the Fiscal Year 2011” Roselle Fire Protection District. March 17, 2011. Pg. 4.

¹¹ “Re: County Ordinance OCB-001-11” Gerald T. Dietz, Attorney for Roselle Fire Protection District. Sept. 28, 2011.

¹² Email from Gerald Dietz, Roselle FPD Attorney. January 31, 2012.

¹³ Email from Gerald Dietz, Roselle FPD Attorney. January 31, 2012.

Yorkfield Fire Protection District

Background

The Yorkfield Fire Protection District is responsible for providing emergency response fire service to areas of Elmhurst, and unincorporated Elmhurst and Oak Brook. The District consists of 359 parcels of property and approximately 700 residents.¹ The District has a contractual agreement with the City of Elmhurst to provide fire and emergency medical services to its residents.²

Enabling Statute

70 ILCS 705 Fire Protection District Act: Allows for the creation of municipal corporations known as fire protection districts that may engage in the acquisition, establishment, maintenance and operation of fire stations, facilities, vehicles, apparatus and equipment for the prevention and control of fire.³

Board Composition

The board consists of three trustees, two that are appointed by the DuPage County Board Chairman and one appointed by Cook County. Two trustees are compensated \$1,000 per year and the third trustee has declined compensation. All trustees serve three-year terms. Per provided Board materials, Board meetings are held four times per year.⁴

Financial Summary

- In 2010, the District issued a property tax levy of \$89,528 at a rate of .2043%.⁵
- The property tax applies to all property within the Yorkfield Fire Protection District, which includes to areas of Elmhurst, and unincorporated Elmhurst and Oak Brook.
- The District's total expenditures for FY2010 were \$211,961.⁶

Observations

The following observations are derived from interviews with the Yorkfield Fire Protection District, review of documents provided by the District, and best practice research.

Financial Analysis

Several specific matters were noted with regard to the District's financial position:

- On an annual basis, expenditures have exceeded revenues and revenue growth has been modest. The expenditures exceeded revenues by about approximately \$43,000 and \$64,000 in FY 2011 and FY 2010, respectively. The District stated that this deficit was intentional to decrease the large net asset balance that has been accumulating for the District over the years. Specifically, the District stated:

"The District has purposefully reduced its levy each year for the past several years in an effort to reduce the sizable cash balance on hand after all District property, vehicles and equipment were sold when the District ceased providing active fire services in 2001. This has definitely been the goal of the Board since it sold its fire station a couple of years later. The Board intends to continue the practice of reducing its cash balance over the next few years. This is deficit spending by conscious choice."

It is not clear by documentation and responses provided how the District plans to operate at a breakeven level once the cash balance has been expended.

- Year-end fund balance, as reported in the annual reports, significantly exceeds total annual expenditures and allows for well over the three to six months of operating costs. The fund balance as of May 31, 2011 was about \$1.1 million.

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The District operates on a May 31, fiscal year end. The last year the District received an audited financial statement was 2007. Since 2007, the District receives an agreed-upon procedures (AUP) report on its cash receipts and bank reconciliations. The District is not required to have an audit of its financial statements, as its annual revenues are less than \$850,000. The schedules below are from the Districts annual statements filed with the State Comptroller's Office and the DuPage County Clerk. The latest financial reports provided by the District were for the year ended May 31, 2011. The following is a table of available financial information for the past two fiscal years:

Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended May 31st

	<u>2010</u>	<u>2011</u>
Revenues	\$ 147,573	\$ 148,072
Expenses	<u>211,961</u>	<u>191,750</u>
Change in Net Assets	(64,388)	(43,679)
Net Assets, Beginning	<u>1,227,688</u>	<u>1,163,299</u>
Net Assets, Ending	<u>\$ 1,163,299</u>	<u>\$ 1,119,621</u>

Source: Treasurer's Annual Statement of Receipts and Disbursements for the Yorkfield Fire Protection District for the fiscal years ended May 31, 2010 and 2011.

Organizational Efficiency

- The Yorkfield Fire Protection District serves only as a taxing body; this is sometimes called a "paper district." The District levies a property tax and maintains contractual agreement with the City of Elmhurst to provide fire protection services to its residents. The District has some administrative overhead, because it pays for stipends to its trustees, office supplies, clerical and accounting fees, and legal fees, which totals approximately \$13,000 for the fiscal year ending 2012.⁷

Procurement Methodology

- Yorkfield Fire Protection District does not have a procurement policy.

Internal Controls

Ethics

- The District does maintain an ethics policy; however, upon comparison with DuPage County's Ethics Policy, we found that the policy was missing information regarding the following items:
 - Political Contribution Limit
 - Ethics training requirement
 - Contractor disclosure
 - Board disclosure
 - Conflict of interest
 - Future employment
 - Former employment relationships

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Credit Cards

- Yorkfield Fire Protection District does not have any credit cards.

Transparency and Accountability

- Yorkfield Fire Protection District does not have a website.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Develop a Spending Plan

- For 2010 and 2011, the District expended more funds than they had received. As noted above, the District stated that this deficit spending was intentional to spend down the large cash balance that had been built up since the sale of the District's capital assets. We recommend that the District develop a spending plan that provides a timeline for the spend down of the District's cash balance. This plan should discuss the target cash balance that the District desires after this spend down is complete and how the District will increase revenues or decrease expenditures so that they are not operating at a deficit once the cash balance is at an acceptable level. Without such a plan, it is not clear how the District will operate at a breakeven or with revenues exceeding expenditures once the cash balance has been expended.

Cost of Fire Protection Services

- The amount that the service provider indicated was necessary to cover fire protection services on an annual basis was requested from the District. The District was not aware of the methodology that the City of Elmhurst uses to determine the cost to provide services to the District. Therefore, it is not clear that the annual cost of fire protection and ambulance services provided by the City is based on actual costs of service or based solely on the amount of property taxes levied on the District's taxpayers. We recommend that future contracts with the service providers be based on actual costs of services of the service providers, in accordance with best practices.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Yorkfield Fire Protection District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other District documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

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Implement Internal Controls Policies

Procurement

Yorkfield Fire Protection District does not have a procurement policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

In order to more fully align its policy with the ethics policy standard of the County, we recommend that the Yorkfield Fire Protection District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Structural Recommendations

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate options for alternative service models

Annexation

- Facilitate annexation of the District by a municipality (Elmhurst and Oak Brook)
- Facilitate Discussions: Help educate & facilitate discussions among residents of the Yorkfield Fire Protection District to explore annexation, its advantages/disadvantages, and other alternatives.

Shared Services

- Consider cost saving measures to have the City of Elmhurst act as fiscal and administrative agents for the District. Activities including office supplies, clerical and accounting fees, legal fees could potentially be provided by Elmhurst at a lower cost.

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Fee for Service

- Consider dissolving the District and implementing a fee for service model. This would remove the taxing body and require residents to pay for fire protection service on an as-needed basis.

Annexation or fee for service would remove a taxing body, or shared services could reduce duplicative costs, as well as relieve the County of certain risks associated with the District as the County Board Chairman appoints members to the District's Board. Before pursuing any of the above options, it is important to engage District taxpayers and the communities of Elmhurst and Oak Brook in a collaborative discussion to explore the advantages and disadvantages of each option. Additionally, legislative changes may be required to allow for alternative service delivery methods. The County does not have the power to force the District into any action for annexation, fee for services or shared services; however, the County may collaboratively provide guidance and assistance with potential facilitation by the Fire Service Stakeholders Group, which is supported by the County and the DuPage Mayors and Managers Conference.

Conclusion

The Yorkfield Fire Protection District is considered a financially stable organization based on its May 31, 2011 annual statements. However, we recommend that the District develop a spending plan and fund balance policy to provide transparency around its plan to spend down resources. Such a plan is important, since the District's primary revenue source is property taxes, and the District will not likely be able to increase the tax levy over statutory limits without voter approval.

We are recommending that the District determine what the taxpayers are paying for services based on actual service provider costs of services, implement a policy over procurement, and align its ethics policy with the County's ethics policy. Furthermore, we are recommending that the District work with its taxpayers to determine if the District will be better served through annexation, fee for services or if cost savings can be achieved through a shared service model. The County does not have the power to force the District into any action, including annexation, fee for services or shared services; however, the County may collaboratively provide guidance and assistance. In addition, legislative changes may be necessary for alternative service delivery models.

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¹ “2011 Annual Financial Report” Yorkfield FPD. 2011. Pg. 3

² “Yorkfield Fire Protection District” DuPage County Website. Accessed Jan. 10, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31609/

³ “Illinois Compiled Statutes: Special Districts (70 ILCS 705/) Fire Protection District Act.” Illinois General Assembly Website. Accessed January 10, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=872&ChapterID=15>

⁴ “Yorkfield FPD Schedule of Meetings 2011” Yorkfield Fire Protection District. Not dated.

⁵ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁶ “Treasurer’s Annual Statement of Receipts and Disbursements for the Yorkfield Fire Protection District” Yorkfield Fire Protection District. Nov. 9, 2010. Pg. 1.

⁷ “Ordinance Providing for the Budget and Appropriations of the Yorkfield Fire Protection District Beginning June 1, 2011 and Ending May 31, 2012” Yorkfield Fire Protection District. June 7, 2011. Pg. 3.

DuPage Housing Authority

Background

The DuPage Housing Authority's mission is to serve and empower the people of DuPage County needing assistance in obtaining decent, safe, sanitary and affordable housing. The Authority administers public programs and funds in accordance with the U.S. Department of Housing and Urban Development (HUD) regulations and guidelines.¹ The Authority had approximately 27 full-time employees as of September 2011.²

Enabling Statute

310 ILCS 10 Housing Authority Act: Provides for the formation of a Housing Authority to access federal funds for various programs administered by the U.S. Department of Housing and Urban Development.³

Board Composition

The Authority's Board consists of seven commissioners (two of whom may be members of the DuPage County Board or other elected officials). The board members are not compensated and serve five-year terms.⁴ Per provided Board materials, Board meetings are scheduled for the third Thursday of each month.⁵

Financial Summary

The Authority's fiscal year 2011 revenues totaled \$37,216,839. Revenues were derived from HUD funding, housing choice vouchers, investment income (including Ogden Manor rent payment), and from administrative fees for contracted administrative work for the Kendall County Housing Authority.⁶

Observations

The following observations are derived from interviews with the Housing Authority, review of documents provided by the Authority, and best practice research.

Financial Analysis

- The Financial Analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented. The analysis was primarily performed using summary or condensed financial data. The Authority operates on a June 30 fiscal year end. The latest audited financial statements are for the year ended June 30, 2011, dated March 15, 2012.
- The Authority is currently working with HUD to repay approximately five million dollars due to non-compliance issues noted during U.S. Housing and Urban Development (HUD) audits covering the years 2009-2011.⁷ The Authority cannot use federal funds to repay the money owed to HUD, but is working to address matters noted by HUD in order to seek payment forgiveness.⁸
- The Authority has recently concluded Administrative Hearings for the review of the Resident's Section 8 Project Based Voucher (PBV) Housing Assistance Subsidy Payments, rent payments, and payment or overpayment of public benefits. The hearings were conducted in accordance with state statute and HUD guidelines related to administrative hearings. The decisions and recommendations by the Administrative Hearing Officer will need to be followed by the Authority to recover overpayments previously made by the Authority. The Authority is currently working with HUD to review the results of the administrative hearings and to determine appropriate actions necessary in accordance with state statute and HUD requirements.⁹

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Upon review of the financial information associated with the Housing Authority, Crowe noted the following items:

- Over the past three fiscal years, revenues have continued to increase, but expenditures have been growing at the same or greater rates. These trends have occurred because the predominant source of funding from the federal government is for subsidized housing programs.
- Net assets of the Authority have decreased in the past three years by approximately 57% to a balance of \$2.0 million as of June 30, 2011. A significant portion of the decrease was due to the write-off of construction in progress of \$1,853,722 related to the Friary in Oak Brook. The Authority incurred expenses from July 1999 to 2009 related to the acquisition and development of the Friary. The project was not acquired; therefore, expenses that were previously capitalized were expensed in 2011.¹⁰
- The Authority has experienced an annual decrease in net assets of over \$1 million each year for 2009, 2010 and 2011. The primary reason for the 2011 decrease was the write-off of the construction in progress for the Friary of \$1,853,722. Authority Management has indicated that current financial results for fiscal year ended June 30, 2012, are positive and they are acting to control spending and monitor activity.
- The Authority received an unqualified audit report on its June 30, 2011 financial statements that were recently issued. The results of the audit included several findings that were considered to be material weaknesses in internal controls over financial reporting and over major federal program administration. The independent auditor qualified the report on compliance for major federal programs as the Authority did not comply with restricted cash and reasonable rent requirements of the Housing Choice Voucher Program. The findings noted within the Independent Auditor's Report relate to the fiscal year ended June 30, 2011 as well as internal control and non-compliance conditions related to a previous Authority Board and Administration. Current management of the Authority has provided responses to the findings and they have commented that all findings should be addressed by the end of July 2012. Management has been tracking progress of these findings and the findings of the HUD Audit and they believe that appropriate steps have been taken towards a resolution.

Financial Statements Summary

- The tables below present a summary of financial information for the Housing Authority for the years ended June 30, 2009 through 2011:

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Summary Statement of Net Assets
As of June 30,

	2011	2010*	2009
Current Assets			
Cash & Cash Equivalents	\$ 754,550	\$ 970,902	\$ 415,260
Accounts Receivable-other government	49,088	29,913	44,014
Accounts Receivable-misc	104,696	4,520	11,400
Accounts Receivable-fraud recov. net	-	151,104	174,819
Prepaid Expenses	57,007	54,474	66,721
Current Portion of note receivable	-	2,250	2,250
Total Current Assets	965,341	1,213,163	714,464
Capital Assets			
Land	1,495,000	1,495,000	1,495,000
Buildings	14,114,602	14,114,602	14,114,602
Furniture and Equipment	379,217	380,006	366,037
Construction in Progress	-	1,853,722	1,843,050
Less Accumulated Depreciation	(2,583,549)	(2,048,811)	(1,598,961)
Total Capital Assets	13,405,270	15,794,519	16,219,728
Restricted Cash	2,937,203	2,925,319	3,975,538
Notes Receivable, net of current portion	-	19,500	21,500
Other assets	430,296	445,837	374,357
Total Assets	\$ 17,738,110	\$ 20,398,338	\$ 21,305,587
Current Liabilities			
Accounts Payable	\$ 130,638	\$ 343,825	\$ 36,322
Accrued Compensated Absences	125,000	314,939	249,103
Tenant Security Deposits	29,484	53,070	33,160
Current Portion of Long Term Debt	231,994	922,811	860,574
Deferred Revenue	605,394	176,692	114,955
Other Current Liabilities	21,975	433,189	414,053
Total Current Liabilities	1,144,485	2,244,526	1,708,167
Long Term Debt, net of current portion	14,094,019	14,344,552	14,618,262
Accrued Compensated Absences	149,634	181,582	172,846
Other Liabilities	332,598	217,347	139,607
Total Liabilities	15,720,736	16,988,007	16,638,882
Net Assets			
Invested in capital assets (net)	(920,743)	527,156	740,892
Restricted	3,147,701	2,628,292	3,532,333
Unrestricted	(209,584)	254,883	393,480
Total net assets	2,017,374	3,410,331	4,666,705
Total Liabilities and Net Assets	\$ 17,738,110	\$ 20,398,338	\$ 21,305,587

* Amounts reclassified in the 2011 audit+A11 to remove Assets Held for Sale and corresponding portion in Other Current Liabilities.

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Summary Statement of Activities
For the Years Ended June 30,

	2011	2010	2009
Operating Revenues			
Tenant revenue	333,644	343,972	326,150
HUD operating grants	27,110,908	26,394,591	24,642,555
Other government grants	-	-	153,259
County Contribution	313,217	-	-
Fraud recovery	-	-	224,560
Other revenues	9,458,652	8,582,777	6,379,232
Total Operating Revenue	37,216,421	35,321,340	31,725,756
Operating Expenses			
Administrative	2,986,153	3,380,584	2,604,348
Tenant Services	62,352	127,448	75,895
Utilities	89,971	60,560	56,544
Ordinary Maintenance and Operation	111,856	87,116	168,385
Protective Services	1,546	4,966	7,129
Insurance and General Expenses	664,431	381,558	257,759
Extraordinary Maintenance	313,217	917,326	-
Housing Assistance Payments	31,293,387	30,444,563	28,343,024
Loss on disposal of asset	1,854,511	922	-
Depreciation and Amortization	540,998	479,888	539,845
Total Operating Expense	37,918,422	35,884,931	32,052,929
Operating Income (Loss)	(702,001)	(563,591)	(327,173)
Non-operating Revenues (Expense):			
Interest Income	418	4,453	23,281
Interest Expense	(691,374)	(697,236)	(707,340)
Net non-operating revenues	(690,956)	(692,783)	(684,059)
Changes in Net Assets	(1,392,957)	(1,256,374)	(1,011,232)
Net Assets, beginning of year	3,410,331	4,666,705	5,677,937
Net Assets, end of year	\$ 2,017,374	\$ 3,410,331	\$ 4,666,705

Sources:

1. Audited Financial Statements June 30, 2010 and 2009 (as restated)
2. Audited Financial Statements June 30, 2011 and 2010

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Assessment of Boards and Commissions

Organizational Efficiency

- Upon being informed by HUD of the compliance issues in spring 2011, the County Board Chairman called for all new leadership. By March of 2011, the Authority contained all new Board members. The new Board, in partnership with the County and HUD, has been working for the past year to correct past issues and return the Authority to a stable state.
- The Board has recently named a new Executive Director. With the Executive Director position filled, the Authority will now begin working to fill the Chief Financial Officer and Attorney positions.¹¹
- The Authority has made progress in addressing many compliance matters in the past year by working with various county departments such as procurement and IT to identify and gain assistance in correcting weaknesses. The new board and Executive Director have drafted an outline of an operations improvement plan for 2012 that identifies goals in the following areas:¹²
 - HUD Compliance
 - Agency compliance goals
 - Establishment of agency internal controls
 - Financial goals
 - IT goals
 - Staff training
 - Management training
 - Procurement policy, procurement process, and training
 - Personnel
 - Transparency
 - Management operations and organizational efficiencies
- Authority staff have or will be participating in several training sessions that include the following topics:¹³
 - Fair Housing-Prairie State Legal Services
 - Equal Employment and Preventing Employment Discrimination
 - Customer Service
 - Earned Income Verification On-line Training
 - Conflict Resolution & Etiquette
 - Microsoft Outlook Training
 - Hearing Officer Training
 - Housing Choice Voucher (HCV) Financial Accounting & Reporting
 - Open Meetings Act
- The Housing Authority maintains the following information and it is on file with the County in accordance to ordinance OCB-001-11:
 - Organizational Chart

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- Salary Information
- Personnel Policy (new employee policy manual in process)

Duplication of Effort/Service

- The Authority is required by the U.S. Department of Housing and Urban Development to receive funding for housing programs within DuPage County. The services provided by the Authority are unique in nature, but some opportunities for shared services may exist internally in areas such as payroll, billing, HR, and joint purchasing opportunities.

Procurement Methodology

- The Authority recently adopted a new policy that has been approved by HUD. Adoption of the county's policy in whole may be difficult because the Authority is subject to HUD regulations and standards.¹⁴ Upon review of the policy, the following areas of the County's policy were not found in the Authority's policy:
 - Bid security / bonding requirements
 - Insurance requirements for contractors
 - Record retention for contractors (recommended 3 years from final payment)
 - Bid and/or request for proposal document addenda and questions
 - Communication with bidders/offerors
 - Placement of purchasing items on agendas
 - Board Level Procurements (DHA Small Purchases \$25,000-\$100,000): The County requires RFP or sealed bidding for purchases greater than \$25,000 and DHA requires RFP or sealed bidding for purchases greater than \$100,000.
 - Provision for the Authority to audit contractor books and records when related to a contract
 - Circumstances not suitable for Bid
 - Change order and contract modification procedures
 - Provision for multi-year contracts
 - Contract renewal procedure
 - Declaration of non-responsibility procedure
 - Guidance for review of the procurement policy (recommended every 5 years)
- The Housing Authority has utilized the state procurement plan and is working closely with the County Procurement to:¹⁵
 - Review contracts
 - Standardize procurement forms
 - Gain assistance in procuring computers, equipment and other IT items
- In addition to updating the procurement policy and utilizing County Procurement, three Authority staff members attended procurement training in March 2012.

Internal Controls

- The Authority has one credit card that is maintained within the Finance Department. The Authority's credit card policy was recently passed within the procurement policy. It states that "credit card usage should follow the rules for all other small purchases" and it also suggests that "the DHA should adopt reasonable safeguards to assure that they are used only for intended purposes (for instance, limiting the types of purchases or the amount of purchases that are permitted with credit cards)."¹⁶
- The Housing Authority has an ethics policy and it is on file with the County in accordance with ordinance OCB-001-11. Upon review we found the following areas were covered in the County's ethics policy but were not covered in the Authority's policy:

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- Political Contribution Limit
- Former employment relationships
- Internal control issues of the past are being addressed with a Corrective Action Plan and HUD “acknowledges the efforts of the new Board and Administration to correct these issues, and we [HUD looks] look forward to continued cooperation in this effort.”¹⁷ Some specific areas being addressed include:¹⁸
 - Improving file management and maintenance by utilizing training, new software, and scanned documents.
 - Improving quality control procedures
- The Housing Authority recently implemented the following policy changes:¹⁹
 - Ethics Ordinance- August 2011
 - Financial Policy- August 2011
 - Travel Policy- August 2011
 - Values and Guiding Principles- August 2011
 - Procurement Policy- February 2012
 - Credit Card Policy- February 2012 (within procurement policy)

Transparency and Accountability

- The Housing Authority’s website provides information on housing programs, documents explaining how to apply to housing programs, and meeting agendas; however, the website does not contain meeting minutes.²⁰
 - As per the draft Operations Improvement Plan, the Authority is in the process of improving the website to provide more information and documents to the public and program participants. (In review by HUD as part of software implementation)²¹
- The Authority recently appointed Freedom of Information Act (FOIA) officers that have FOIA training.²²
- Updated policies, employee training, and the draft operations improvement plan all contribute to making the DHA a stronger, more transparent organization, The interaction with the County has helped develop a stronger interworking relationship and has allowed the Authority to benefit from the experience and expertise of county staff.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Continue implementing key goals and controls

- The Authority currently has new leadership in place that is addressing the past issues by working closely with HUD. We recommend the Authority continue working with HUD to implements standards and controls that were addressed in the Corrective Action Plan as well as the goals in the draft Operations Improvement Plan.

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Increase Transparency & Accountability

- Consider assigning County staff to serve as a liaison between the DuPage Housing Authority and DuPage County to serve as a resource to the organization, improve communications, share information and best practices, etc. In addition, we recommend that the Authority provide periodic updates to the County related to the status of HUD finding resolution.
- Post Authority Board Meeting Minutes and other appropriate public documentation online.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board members.

Implement Internal Controls Policies

Procurement

In order to more fully align its procurement policy with DuPage County, we recommend that the DuPage Housing Authority add the following information:

- Board Level Procurements (DHA Small Purchases \$25,000-\$100,000): We recommend that the Authority decrease the amount requiring RFP or sealed bidding from \$100,000 to \$25,000. The recommendation for the threshold change has been discussed with the Chairman of the Housing Authority Board and the matter will be discussed at a Housing Authority Board meeting.

In order to more fully align its procurement policy with DuPage County, we recommend that the DuPage Housing Authority add, revise or consider the following information:

- Bid security / bonding requirements
- Insurance requirements for contractors
- Record retention for contractors (recommended 3 years from final payment)
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Placement of purchasing items on agendas
- Provision for the Authority to audit contractor books and records when related to a contract
- Circumstances not suitable for Bid
- Change order and contract modification procedures
- Provision for multi-year contracts
- Contract renewal procedure
- Declaration of non-responsibility procedure
- Guidance for review of the procurement policy (recommended every 5 years)

Ethics

In order to more fully align its policy with the ethics policy standard of the County, we recommend that the Housing Authority add, revise or consider the following information:

- Political Contribution Limit – We recommend that commissioners, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists.
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the Housing Authority may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

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Credit Cards

- The DuPage County Housing Authority's credit card policy requires that "purchases must follow the rules for all other small purchases" and suggests "the DHA adopt reasonable safeguards (limiting the types of purchases or amount of purchases) to assure they are used for intended purposes." We recommend the Authority continue with this suggestion and that they also add the following:
 - Names of the credit cards (BP, Home Depot, Visa, etc.)
 - Names of positions authorized to use credit cards. Credit cards should only be used by employees with a reasonable need for use.
 - Board members are not considered employees with a reasonable need for use of credit cards.

Adopting these policies will help the Authority maintain proper internal controls to avoid further compliance issues with HUD.

Structural Recommendation

Explore Shared Service/Contracting Options

- The Authority has been working with the County to explore opportunities for cost savings and enhancing internal controls around purchasing. Another option for the Authority to consider is related to contracting services with the County to gain efficiencies. Contracted Services create an opportunity to streamline internal operations by having work performed by larger, more specialized units. The Housing Authority's organizational chart shows that the Authority retains a Director of IT (currently vacant), a PC Consultant (contractor), CFO, and billing personnel.²³ Accordingly, there may be an opportunity to utilize County services for some of these roles.

Conclusion

The Housing Authority has addressed many of the audit recommendations to meet the compliance requirements of HUD. Management of the Authority is working closely with the Housing Authority Board and with HUD to resolve audit issues and seek recovery of previous overpayments made by the Authority. The Authority has completed hearings in accordance with State Statute and HUD guidelines and is working on addressing internal control weaknesses and compliance matters noted in the June 30, 2011, audit that was issued on March 15, 2012.

The Authority is also working with the County and State purchasing agents to gain cost savings from joint purchasing and to improve internal controls surrounding purchasing. The Authority has updated and enhanced most of its administrative policies and has provided training opportunities for its staff.

The Authority has made significant improvements in addressing issues noted with audit findings and recommendations. The Authority will need to continue working with HUD to resolve open matters and it is possible that the audit issues will take some time to resolve. Therefore, it is important for the Authority and the County to communicate regularly regarding the status of finding resolution and the potential repayment of funds overpaid by the Authority.

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- ¹ “DuPage Housing Authority-Mission” DuPage County Housing Authority. 2011 <http://www.dupagehousing.org/>
- ² “September 2011 Personnel Roster” DuPage Housing Authority. September 2011. Pg. 1
- ³ “Illinois Compiled Statutes (310 ILCS 10/) Housing Authorities Act” Illinois General Assembly Website. Accessed January 4, 2012. <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=1424&ChapterID=29>
- ⁴ “DuPage Housing Authority” DuPage County 2011 http://www.dupageco.org/CountyBoard/Appointive_Bodies/31522/
- ⁵ “DHA Meeting Schedule 2012” DuPage Housing Authority. 2011. Pg. 1
- ⁶ “DHA 2012 Budget” DuPage County Housing Authority. 2011 Pg. 1
- ⁷ “Audit Report” Regional Inspector General. 2009, 2010, 2011.
- ⁸ “Interview Notes” Interview with Tom Good on December 2, 2011. Pg. 1
- ⁹ Interview with David Hoicka and Tom Good on April 2, 2012.
- ¹⁰ DuPage Housing Authority Financial Statements as of and for the year ended June 30, 2011.
- ¹¹ “Interview Notes” Interview with Tom Good on December 2, 2011. Pg. 2
- ¹² “Draft Discussion Memo: Operations Improvement Plans for 2012” David Hoicka. March 30, 2012. Pgs. 1-3
- ¹³ “Draft Discussion Memo: Operations Improvement Plans for 2012” David Hoicka. March 30, 2012. Pgs. 1-3
- ¹⁴ “Interview Notes” Interview with Tom Good on December 2, 2011. Pg. 2
- ¹⁵ Interview with David Hoicka and Tom Good on April 2, 2012.
- ¹⁶ “DuPage Housing Authority Procurement Policy” DuPage Housing Authority. February 16, 2012. Pg. 11
- ¹⁷ “Letter from HUD” HUD Regional Office. September 19, 2011 Pg. 1
- ¹⁸ “Draft Discussion Memo: Operations Improvement Plans for 2012” David Hoicka. March 30, 2012. Pgs. 1-3
- ¹⁹ “Draft Discussion Memo: Operations Improvement Plans for 2012” David Hoicka. March 30, 2012. Pgs. 1-3
- ²⁰ “DuPage Housing Authority Website” DuPage Housing Authority. January 18, 2012 <http://www.dupagehousing.org/>
- ²¹ “Draft Discussion Memo: Operations Improvement Plans for 2012” David Hoicka. March 30, 2012. Pg. 3
- ²² “Draft Discussion Memo: Operations Improvement Plans for 2012” David Hoicka. March 30, 2012. Pg. 3
- ²³ “Organizational Chart” Housing Authority. September 1, 2011. Pg. 1

Sanitary Districts

Background

At the request of DuPage County, Crowe Horwath LLP has performed a limited study to review various aspects of four sanitary districts that have had the governing body Board Members appointed by the County Board Chairman and confirmed by the DuPage County Board. The purpose of the study was to obtain a better understanding of the sanitary districts' functions, assess the transparency and accountability, assess opportunities to improve operational efficiency, streamline organizational structures, and reduce costs. In addition, an assessment was made of the long-term financial sustainability and of the internal control environment at the sanitary districts. The four sanitary districts included in the study are as follows:

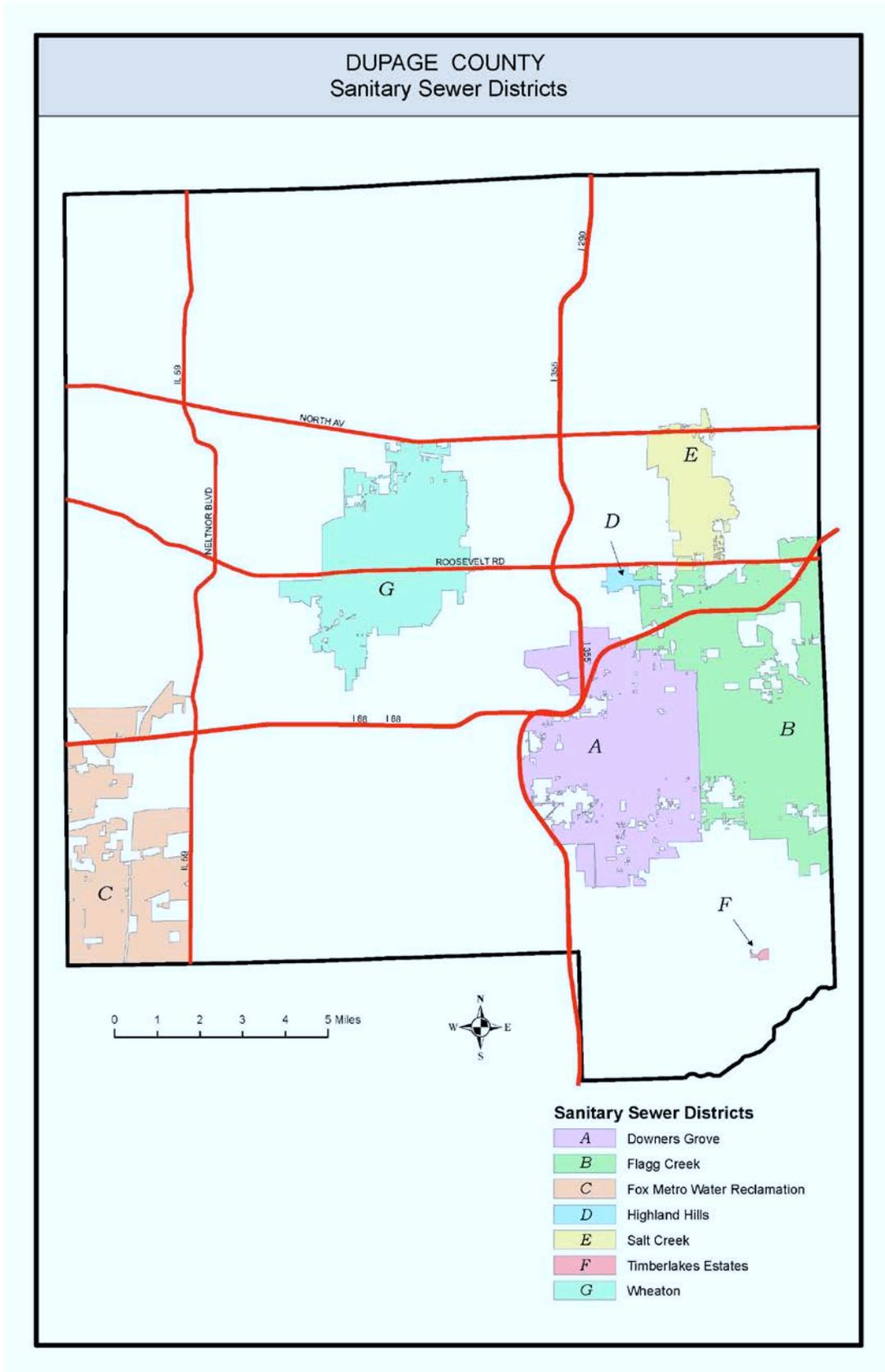
- Downers Grove Sanitary District,
- Highland Hills Sanitary District,
- Salt Creek Sanitary District, and
- Wheaton Sanitary District.

Individual reports of the sanitary districts included within our scope have been prepared with observations and recommendations to offer specific matters for further consideration by the County and the individual sanitary districts. The sections of each report have been consistently formatted to offer comparative information for each sanitary district; however, each district operates under different circumstances and care must be exercised not to attempt general comparisons without fully understanding the character of the services provided by each district. The individual sanitary district reports include the following sections:

- Background,
- Observations,
 - Financial Analysis and Summary Financial Information
 - Organizational Efficiency
 - Duplication of Effort/Service
 - Internal Controls
 - Transparency and Accountability
 - Regulation
- Operational Recommendations, and
- Structural Recommendations.

There are over 20 Facility Planning Areas (FPA) established by the Illinois Environmental Protection Agency (IEPA) that serve DuPage County customers by governing the construction and maintenance of a plant(s) for the purification and treatment of sewage and the maintenance of the outlet for the drainage of treated sanitary waste water. The entities that provide such services include sanitary districts and municipalities, in addition to DuPage County. Since our report only covers four (4) sanitary districts, this report only includes a small percentage of the entities that operate in the County and there are a number of challenges related to organizing sanitary districts due to jurisdictional control at the County level. A number of the recommendations that we are making will require significant effort on the part of the County, municipalities and sanitary districts to explore alternatives for operating more efficiently to serve the sanitary district users within DuPage County. The following map displays the boundaries of the Facility Planning Areas in DuPage County.

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Observations and Operational Recommendations

Financial Analysis

Each of the sanitary districts included within the study have similar challenges to operate the district in the most efficient manner possible. Several revenue sources are allowed by State Statute to operate and provide capital for the sanitary districts, including: user charges, connection fees, interest income, personal property replacement taxes, and potentially grants and property taxes. Two of the four sanitary districts, Downers Grove and Highland Hills, have annually levied property taxes. The 2012 annual appropriation (budgeted expenditures/expenses) for the sanitary districts are as follows:

- Downers Grove Sanitary District \$10,996,600
- Highland Hills Sanitary District \$405,083
- Salt Creek Sanitary District \$3,593,301
- Wheaton Sanitary District \$14,992,797

All four of the sanitary districts have experienced a decrease in net assets between April 30, 2008 and April 30, 2011. A summary of the decline in net assets with the April 30, 2011 net asset balance is as follows:

District Name	Net Loss 2008-2011	Net Asset Balance at Apr. 30, 2011
Downers Grove Sanitary District	\$(636,084)	\$68,123,320
Highland Hills Sanitary District	\$(397,000)	\$4,347,000
Salt Creek Sanitary District	\$(638,837)	\$6,519,772
Wheaton Sanitary District	\$(1,706,000)	\$18,861,000

We received a plan from several of the Districts that indicated that the decline in net assets was planned to address capital investment needs. Based on the information provided, it appears there was a plan for the spending of reserves in several cases. Both Downers Grove and Wheaton Sanitary Districts provided plans that provided clarity to the planned spending for operating and capital purposes in the form of formal financial plans. Salt Creek Sanitary District also provided a rate analysis that was prepared internally to provide guidance to the District's Board about rates; however, more details are necessary to provide more clarity around the District's financial plans for the future and the spending of reserves. We did not receive any formal financial plans for Highland Hills Sanitary District, therefore, we cannot understand if there is a plan to address the deficit spending by the District.

While we did not conduct an audit of the financial statements of each of the sanitary districts and we are not expressing any assurance on the financial results of them, we have made high-level evaluations about their financial sustainability. Based on our analysis we have concluded that the Downers Grove and Wheaton Sanitary Districts have maintained stable operations and have

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employed best practices to manage their operations and capital programs. Current practices are indicators that a sustainable operational model is in place for fiscal operations at these Districts. The Salt Creek Sanitary District has also been considered a stable organization; however, it is showing indications of decline. The erosion of the District's net assets over the past four years due to deficit spending, the age of the facility, the sensitivity of significant required rate increases and changes in key personnel call into question the ability of the District to remain a sustainable organization. In addition, we believe there are significant concerns that will need to be addressed related to the sustainability of the Highland Hills Sanitary District. Continued erosion of the District's net assets due to deficit spending, the age of the infrastructure and lack of response from Management of the District are all matters that are indicators of a condition requiring further attention.

We are recommending that further analysis be performed by the Districts to better understand deficit spending and future sustainability of the Salt Creek and Highland Hills Sanitary Districts. The question regarding sustainability will require the attention of the County to address potential obligations and liabilities. The County will also likely need to facilitate further discussions regarding the long-term viability of these smaller stand-alone sanitary districts.

Sanitary District Rate Structure

Typically, Sanitary Districts bill their customers based on their water consumption. This does not exactly match the amount of wastewater the user is dispensing, but it is used as a proxy. The Districts noted that the typical current rate structure relies heavily on water consumption. Recent history shows lower billable flows (due to vacancies and water conservation measures) and resulting revenue, but not a commensurate reduction in operating expenses. Careful evaluation of cost-of-service reveals that a relatively high proportion of expenses are fixed and not variable with billable flow, meaning that the rate design needs to include a higher proportion of income from monthly service fees, with less reliance on revenue based on billable flow.

We recommend that the sanitary districts will need to continue to monitor the rate structure and study the cost of services to determine the appropriate rate structure for fixed costs. A cost of service study may also assist each entity to better align costs between fixed and variable costs.

Organizational Efficiency

Organizational efficiency matters were discussed with each District in a focus group session with Sanitary Districts on November 29, 2011, and in subsequent conversations and correspondence. In addition, the issue of organizational efficiency has been previously studied by the DuPage Intergovernmental Task Force. Sanitary wastewater services divide into collection and treatment. The two related services are often, but not always, provided or produced by separate agencies. Downers Grove and Wheaton provide both collection and treatment services while Salt Creek provides only treatment and Highland Hills provides only collection services. The Task Force Study indicated that divided responsibility between collection and treatment can result in higher total sewer charges and can present a problem of coordination in the provision of collection and treatment. The report recommended closing smaller treatment plants and shifting to larger scale plants and to shift collection responsibilities to the treatment agency, unless the treatment facility can measure the influent and can charge the collection jurisdictions proportionately.

DuPage County's Department of Public Works was responsible for addressing the reports recommendations over the collection and treatment facilities that it operates. While the report is over 20 years old, there is relevance to the current situation related to the operations of the sanitary districts, especially the Salt Creek and Highland Hills Sanitary Districts.

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We recommend that the County and other sanitary districts collaborate further on ways that responsibilities related to collection and treatment can be revised to provide for efficiencies and provide the services as required by the regulatory bodies. We further recommend that a study be performed to consider the consolidation of the Salt Creek and Highland Hills Sanitary Districts with another entity to afford more opportunities to be efficient and gain some economies. Several matters of concern about the sustainability of the operations, which have been mentioned previously in this report, point to the need of further study to determine whether the consolidation of services with another entity will be in the best interests of the customers of the District and the County.

Duplication of Effort/Service

There can be some potential gains in efficiencies by sharing services that are used across the Districts, such as IT, HR, utility billing and collection, health insurance, laboratory services, construction, joint procurement or purchasing agreements. For instance, the County's Department of Public Works reports the following costs associated with the example services for its sanitary sewer appropriation for fiscal year 2012:

DuPage County Sanitary Sewer Analysis of Costs

Information Technology	\$350,000	1.96%
Human Resources	\$82,000	0.46%
Health Insurance	\$746,628	4.19%
Purchasing of Chemicals	\$400,000	2.24%
Centralized Laboratory Services	\$168,000	0.94%
Total FY 2012 Budget	\$17,822,055	100.00%

Each Sanitary District included in this study operates differently and the costs that each pays will vary so generalization of the costs into savings cannot be determined. While generalizations about cost savings cannot be made there are elements of the percentages of costs that are budgeted by the County for purposes of determining guidelines. Therefore, such cost savings can be significant and worth consideration by sanitary districts and municipalities.

We recommend that the County and other sanitary districts further study how to gain efficiencies by sharing personnel and equipment.

Internal Controls

We made several recommendations to internal controls related to policies of the sanitary districts.

We recommended that each of the sanitary districts amend their current ethics policies to be in alignment with the County's Ethics Policy. We also recommended that those sanitary districts with credit cards review and revise their credit card policy to provide more controls over the credit card usage.

Transparency and Accountability

We are recommending that the County and each sanitary district, included within the study, increase transparency and accountability by performing the following:

- Provide regular communication to the public and the County Board Chairman's Office.

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- Consider assigning County staff to serve as a liaison between the sanitary district and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website if the sanitary district does not maintain a website.

Compliance with County Ordinance OCB-001-11

The Highland Hills Sanitary District did not comply with several requests for further information related to the study we conducted. The District was required to comply with County Ordinance OCB-001-11 by providing information within 5 business days of the request. As part of our study we requested a rate analysis to support the rates that the District charges. We did not receive such an analysis nor did the District respond that they did not have such an analysis. In addition, we requested an infrastructure condition assessment analysis and we have not received such a report, to date, or within the required 5 business days of the request for information.

We recommend that in the future that all Districts subject to the County Ordinance comply with the requirements by providing information as requested. In addition, the District should post relevant information on the County's website.

Regulation

Sanitary districts are heavily regulated by the Federal and State government, in things such as rate structure and plant effluent. The major issues facing sanitary districts today are pending regulations from the US Environmental Protection Agency (EPA) on biological nutrient removal (phosphorus and nitrogen), peak wet weather treatment (blending), and ammonia. These regulations could mandate substantial capital improvement costs. National Pollutant Discharge Elimination System (NPDES) permits from IEPA are already starting to reflect a shift in EPA's mindset on these matters. Sanitary districts will likely incur large costs to bring their systems into compliance. Typically the only funding that is available to cover such costs are State Revolving Fund (SRF) loans. Therefore, there is a need for unified and collaborative advocacy from all DuPage County wastewater agencies.

We recommend that the County and sanitary districts explore ways to address these requirements on behalf of the wastewater customers of DuPage County.

Structural Recommendations

Reduce and eliminate reliance on Property Taxes

Two of the Sanitary Districts included within our report, Downers Grove and Highland Hills, levy property taxes each year. Sanitary districts are allowed to levy property taxes by State Statute and use the taxes for operational purposes. As a governmental utility a best practice will be to provide its services without the use of property taxes. Such a change will provide more equitable charges to the users of the utility system.

We recommend that the Downers Grove and Highland Hills Sanitary Districts study reducing the reliance on property taxes and possibly ultimately eliminate the property tax levy and provide for such revenues through user fees.

Study the potential consolidation of two of the Sanitary Districts with other sanitary districts or municipalities.

The Salt Creek and the Highland Hills Sanitary Districts have been experiencing financial issues that present some long-term concerns to the County. The Salt Creek Sanitary District has been a stable operational entity; however, there are signs that the District may be facing a fiscal strain

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soon. The District has experienced deficit spending in the past, the plant will need significant capital improvements and the current plant manager is retiring and these concerns have not been formally addressed through a management plan. The Highland Hills Sanitary District is facing a structural financial deficit and the situation is further compounded by increased regulation from the EPA and the reliance it must place on the Flagg Creek Sanitary District. Therefore, consolidation of these District with other entities should be considered to afford more opportunities to be efficient and gain some economies.

We recommend that Salt Creek and Highland Hills Sanitary Districts and their communities each study the viability of the Districts as stand-alone entities in order to determine if its customers and the County will be more efficiently served by consolidating or sharing services with another entity. The study should also consider the financial sustainability of each District for the long-term.

Once a better understanding of the long-term financial health of the District is ascertained a long-term financial plan should outline the future capital needs of the infrastructure and how the organization proposes to address those needs. Such a study can provide the framework for the consolidation of the District. If consolidation should be pursued, it should be noted that the County does not have the authority to force the District into consolidation. The County may appoint new leadership to the Board of Trustees and rely on their action, or the County may seek legislative remedy.

To address many of the recommendations described above we recommend that the County explore the creation of a coalition of sanitary districts to consider the following:

- Such a coalition would explore potential consolidation of smaller waste water treatment plants, transfer of collection-only jurisdiction responsibilities to treatment provider, other options for shared services, and sharing of best practices.
- This should include all districts and municipalities providing sanitary services, the majority of which were not reviewed in this project.

Downers Grove Sanitary District

Background

The Downers Grove Sanitary District is responsible for providing sanitary sewer service for much of the Village of Downers Grove, a portion of the Village of Westmont west of Cass Avenue, and portions of Woodridge, Lisle, Oak Brook, and Darien. The District consists of 24,739 parcels of property.¹ The Downers Grove Sanitary District was organized in 1921. The District collects sanitary wastewater through over 245 miles of sanitary sewers that they operate and maintain. They also operate and maintain nine wastewater pumping stations and treat the sanitary waste water at their own wastewater treatment center. Construction of its current waste water treatment plant began in 1954, and improvements have been made to the plant on numerous occasions, including major expansions in the early 1970s and again in the late 1980s.² According to its personnel roster, the District has approximately 34 full time employees.³

Enabling Statute

70 ILCS 2405 Sanitary District Act of 1917: Allows for the creation of sanitary districts to govern the construction and maintenance of a plant(s) for the purification and treatment of sewage and the maintenance of the outlet for the drainage of treated sanitary waste water.⁴

Board Composition

The Board consists of three trustees that are compensated \$6,000 per year and serve three year terms. Per provided Board materials, Board meetings are held at 7:30 p.m. on Tuesday, once per month.⁵

Financial Summary

- In 2010, the District issued a property tax levy of \$997,975.92 at a rate of .0336%.⁶ For a home with a market value of \$100,000 and an assessed value of \$33,000, the tax owed to Downers Grove Sanitary District would be \$11.09.
- The District first began levying a tax in 1928 and the rate was reduced when the District began charging usage fees. Property tax revenue is dedicated to maintaining the sewer system and when the District borrowed money a couple of years ago, part of the tax base was dedicated to debt repayment.⁷
- The property tax applies to all property within the Downers Grove Sanitary District. In FY2011-2012, Downers Grove Sanitary District's total appropriation was \$10,996,600. Of that total, \$10,027,200 is expected to be paid from sources other than taxes such as tap-in permits, user fees, federal and state grants, and \$969,400 is expected to be paid from taxes.⁸
- The District also passed its FY 2012-13 appropriation ordinance on March 14, 2012. The total of the appropriation was \$10,308,500. Of that total, \$9,290,650 is expected to be paid from sources other than taxes such as tap-in permits, user fees, federal and state grants, and \$1,017,850 is expected to be paid from taxes.⁹

Observations

The following observations are derived from interviews with the Downers Grove Sanitary District, review of documents provided by the District, and best practice research.

Financial Analysis

The Financial Analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial

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data. The District operates on an April 30, fiscal year end. The latest audited financial statements are for the year ended April 30, 2011, dated August 19, 2011.

Overall, the District's financial condition is stable and management of the District has employed best business practices in managing its financial matters as it has built reserves to help fund planned capital improvements. There were a few trends noted within the District's financial statements that were explained within the notes to the statements and within subsequent discussions with Management. The trends and explanations are as follows:

- The District's net assets decreased by about \$4 million, or about 5.7%, during the year ended April 30, 2011. This decrease was due to a planned spending of funds received under the American Recovery and Reinvestment Act (ARRA) in prior years to construct ARRA related projects.
- The District's budget has had sewer replacements and sewer rehabilitation projects over the past few years that were funded from the Illinois Environmental Protection Agency (IEPA) under the American Recovery and Reinvestment Act of 2009/Water Pollution Control Loan Program (ARRA). These projects have been included within the Operation and Maintenance Expenses and will not be recurring as can be seen in the FY 11-12 and FY 13-14 Budgets. Estimated operational expenses and revenues are based on budgeted information provided by the District and are as follows:

	FY 11-12 Budget	FY 13-14 Budget
Operation and Maintenance Expenses	\$ 7,207,300	\$ 7,099,600
Capital Improvements	2,178,900	207,500
Loan Payable	217,700	169,400
Total Revenue Requirements	<u>9,603,900</u>	<u>7,476,500</u>
Less: General Real Estate Taxes	(969,400)	(1,068,750)
Replacement Taxes	(76,900)	(82,700)
Sewer Charges	(6,160,700)	(6,528,650)
Special Assessment Vouchers	(35,000)	(200,000)
Interest	(30,400)	(95,000)
IEPA Loan Disbursement	<u>(1,251,850)</u>	<u>-</u>
Budgeted Excess/(Deficit)	<u>\$ (1,079,650)</u>	<u>\$ 498,600</u>

The planned deficit in the FY 11-12 budget can be attributed to a potential property acquisition to be funded from cash that has been built up in the Construction Fund.

- The District has prepared a Five Year Financial Plan for Fiscal Years 2011-2012 to 2015-2016 which recommends a monthly service fee annual increase of \$0.50 in FY 12-13 through FY 15-16. The user rate is proposed to remain at the current level for FY 11-12 through FY 15-16. The District should continue to monitor its financial condition as it has with the current Five Year Financial Plan.
- The District provides other post employment benefits (OPEB) to its employees upon retirement for medical, dental, vision and life insurance benefits. The District is required to measure the OPEB and disclose the amounts in its financial statements. As of April 30,

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2010, the District had a net OPEB obligation of \$129,550 because it did not meet the actuarially determined annual required contribution of \$159,088 during the fiscal year ended April 30, 2010. It only contributed \$29,538 towards the OPEB obligation. The OPEB obligation has increased by \$119,736 or 92%, as of April 30, 2011, to a balance of \$249,286, because it did not meet the actuarially determined annual required contribution of \$159,088. During the fiscal year ended April 30, 2011, it contributed \$39,352. This matter is not of immediate concern for the District, because the District is operating on a pay as you go basis and the retirees pay 100% of the premium; however, the District is providing an implicit subsidy to the retirees as the retiree health costs increase age. Therefore, as the amount will need to be shown on the District's financial statements, it will be a matter that will need to be monitored in the future to ensure that the amount does not become too large to manage.

Summary Financial Statements

The Tables below present a financial summary for the District for fiscal years 2008 through 2011:

Summary Statement of Net Assets

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Current & Other Assets	7,840,005	7,481,215	8,349,477	11,107,323
Capital Assets	68,768,843	67,993,809	63,511,735	60,376,055
Total Assets	76,608,848	75,475,024	71,861,212	71,483,378
Long Term Debt Outstanding	1,639,562	1,634,709	443,777	533,135
Other Liabilities	6,845,528	1,623,417	2,241,545	2,190,839
Total Liabilities	8,485,528	3,258,126	2,685,322	2,723,974
Invested in capital assets, net of related debt	61,922,877	66,359,100	63,067,958	59,842,920
Restricted for Capital Projects	454,832	2,083,101	1,412,945	3,973,647
Unrestricted-Designated	820,000	820,000	820,000	820,000
Unrestricted-Undesignated	4,925,611	2,954,697	3,874,987	4,122,837
Total Net Assets	68,123,320	72,216,898	69,175,890	68,759,404

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Summary Statement of Activities

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Operating Revenues	6,011,066	5,933,017	6,303,627	6,772,009
Operating Expenses- Sewer System and Treatment Facilities	9,748,565	2,555,526	5,651,704	4,536,046
Operations Expenses-Depreciation	1,445,771	1,425,084	1,336,360	1,447,695
Total Operating Expenses	11,194,336	3,980,610	6,988,064	5,983,741
Operating Profit (loss)	(5,183,270)	1,952,407	(684,437)	788,268
Nonoperating Revenues (Expenses)	1,089,692	1,088,601	1,100,923	1,210,171
Changes in Net Assets	(4,093,578)	3,041,008	416,486	1,998,439
Net Assets, Beginning of Year	72,216,898	69,175,890	68,759,404	66,760,965
Net Assets, End of Year	<u>68,123,320</u>	<u>72,216,898</u>	<u>69,175,890</u>	<u>68,759,404</u>

Sources :

1. Downers Grove Sanitary District Audit FYE2009
2. Downers Grove Sanitary District Audit FYE2010
3. Downers Grove Sanitary District Audit FYE2011

Organizational Efficiency

Organizational efficiency matters were discussed in a focus group session with Sanitary Districts that was held on November 29, 2011 and in subsequent follow-up meetings with the district. References to these sessions are included within the comments below.

- Four different types of jurisdictions are involved in the provision and production of sanitary wastewater services in DuPage County - municipalities, sanitary districts (as authorized by Illinois Act of 1917), collection-only sanitary districts, and the county government.¹⁰ Sanitary wastewater services divide into collection and treatment. The two related services are often, but not always, provided or produced by separate agencies.¹¹
- While some sanitary districts are responsible for only collection or treatment, Downers Grove Sanitary District both owns and controls the collection system and provides treatment.¹²

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- The District conducts condition assessments of its sewer system on a regular basis – rotating through the entire system every 11 years. They also conduct assessments of non-sewer assets every year. Based on the current assessments, the condition of the infrastructure is good.¹³
- Downers Grove Sanitary District maintains a GIS database for its collection system, so they know the age of that infrastructure. They also conduct sewer system televising on a regular basis to assess the condition of the pipes. The District believes that right now the overall condition of their infrastructure is good, and their risk of failure is low.¹⁴
- The District also maintains redundancy at its treatment plant in order to reduce the consequences of failure.¹⁵

Duplication of Effort/Service

- Downers Grove has explored sharing the following services with other districts or agencies, and some but not all attempts have been successful:¹⁶
 - Pooling health insurance – pool became unworkable
 - Joint purchasing of electricity – were able to pool for professional services but not for actual electricity purchase
 - Outsourced maintenance to the Village of Downers Grove – the village was more expensive than in-house costs
 - Outsourced billing to the various municipalities – the municipalities were more expensive than in-house costs
 - Outsourced laboratory services – lab services were less expensive, but transport of the samples to the lab outweighed any cost savings
 - Software licenses and vehicle purchases – purchased through state master contract
- There maybe some potential gains in efficiencies by sharing services that are used across the Districts, such as IT, HR, utility billing and collection, laboratory services, construction, health insurance, joint procurement or purchasing agreements.¹⁷

Procurement Methodology

- Downers Grove Sanitary District has explored participating in joint purchasing agreements as a way to save money. The District has joined the State of Minnesota pool in order to gain access to negotiated pricing for certain items.¹⁸
- Downers Grove Sanitary District provided its “Operations Report on Procurement and Purchasing” which documents its procurement procedures. It also follows Section 11 of the Sanitary District Act of 1917 (70 ILCS 2405/11) and the Illinois Procurement Code (30 ILCS 500).

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison with the County’s Ethics Policy, we found that the District’s policy did not address the following items:

- Political Contribution Limit
- Ethics training requirement
- Contractor disclosure
- Board disclosure
- Conflict of interest

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- Future employment
- Former employment relationships

Credit Cards

Downers Grove Sanitary District does not issue credit cards. Neither the General Manager nor members of the Board have District credit cards. The District does have a policy on charge cards in its employee policy manual.¹⁹

Other

The District's organizational chart, salary information, and employee policy manual was submitted to the county in accordance with Ordinance OCB-001-11.

Transparency and Accountability

- The Downers Grove Sanitary District has a website (<http://www.dgsd.org/>) where they post information about the District, including their history, services, board meeting schedule, meeting agendas and minutes, ordinances, financial information, and billing and other customer information. Most of this information can be found under the link labeled "General - > How We Are Governed."

Regulation

- Sanitary Districts are heavily regulated by the Federal and State government, in things such as rate structure and plant effluent.²⁰ The significant issues facing Sanitary Districts today are pending regulations from the US Environmental Protection Agency (EPA) on biological nutrient removal (phosphorus and nitrogen), peak wet weather treatment (blending), and ammonia. These regulations could mandate substantial capital improvement costs. National Pollutant Discharge Elimination System (NPDES) permits from IEPA are already starting to reflect a shift in EPA's mindset on these matters.²¹
- Downers Grove Sanitary District identified \$12 million in improvements that would need to be made if the new rules require high-level nitrogen and high-level phosphorus removal. The District believes it would require approximately \$2 million in capital expenditures to biological (mid-level) phosphorous removal.²²
- The EPA has been under pressure from environmental action groups to disallow Illinois' current practice of dedicated treatment for peak wet weather flow (blending). Making a major change in their treatment method would potentially cost \$50-60 million for Downers Grove Sanitary District and it would cost billions of dollars for publicly owned treatment plants statewide.²³
- Downers Grove Sanitary District is a member of the Illinois Association of Waste Water Agencies (IAWA) which provides educational, legislative, and legal services to its members.²⁴ The Districts noted there is a need for unified and collaborative advocacy from all DuPage County wastewater agencies.²⁵

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Share other services or participate in joint purchasing with another district, municipality or the County

- Several specific areas for shared services or joint purchasing that should be explored include: IT, HR, health insurance, sharing utility billing services, joint purchasing of chemicals, centralized laboratory services and bidding of underground construction.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office
- Consider assigning County staff to serve as a liaison between Downers Grove Sanitary District and DuPage County to improve communications, share information and best practices, etc.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Downers Grove Sanitary District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Structural Recommendations

The following recommendations apply to the long-term sustainability of the organization and may require structural change.

Reduce and eliminate reliance on Property Taxes

- As previously summarized, the Downers Grove Sanitary District levies over \$969,000 in property taxes each year. The District is allowed to levy property taxes by State Statute and uses the taxes for operational purposes. As a governmental utility a best practice will be to provide its services without the use of property taxes. Such a change will provide more equitable charges to the users of the utility system. We recommend that the District develop a study on reducing the reliance on property taxes over a period of time and possibly ultimately eliminate the property tax levy and provide for such revenues through user fees. As an alternative, the District could seek a voter referendum to determine if the voters are willing to continue the property tax levy versus charging users for the sanitary services provided by the District.

Management and the Board have continued to levy the property tax for several reasons. As previously mentioned, the tax revenue is dedicated to maintaining the sewer system. The District also feels that it is important to maintain multiple sources of revenue as it increases confidence in the Districts when borrowing money. Finally, the tax levy is meant to address the 4000 parcels in the District that are not connected to the system and receive benefits without being charged.²⁶

Conclusion

The Downers Grove District has maintained a stable operation and has employed best practices to manage its operations and capital programs. Current practices in place are indicators that a sustainable operational model is in place for fiscal operations at the District.

The recommendation that we offered specifically for the District includes aligning its ethics policy with DuPage County's ethics policy. Such alignment will help provide greater accountability and transparency to the District's customers and to the County Chairman and Board.

We further recommend that the District collaborate with the County, municipalities and other Sanitary Districts to explore opportunities for cost savings through shared services, joint purchasing and other means to gain efficiency.

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¹ "Smaller Taxing District 1-30-2012" Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.

² "Who We Are. What We Do." Downers Grove Sanitary District Website. Accessed Jan. 10, 2012.
<http://www.dgsd.org/WhoWeAre.htm>

³ "Personnel Roster" Downers Grove Sanitary District. September 1, 2011. Pg. 1.

⁴ "Illinois Compiled Statutes: Special Districts (70 ILCS 2405/) Sanitary District Act of 1917." Illinois General Assembly Website. Accessed January 10, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=967&ChapterID=15>

⁵ "Downers Grove Sanitary District Notice of Schedule of Regular Meetings" Downers Grove Sanitary District. Dec. 10, 2010.

⁶ "2010 DuPage County Tax Extension Worksheets." DuPage County Clerk.

⁷ Meeting With Nick Menninga & Don Eckman. April 12, 2012

⁸ "Amended Appropriation Ordinance" Downers Grove Sanitary District. December 13, 2011. Pg. 2.

⁹ "Appropriation Ordinance" Downers Grove Sanitary District. March 14, 2012. Pg. 2.

¹⁰ "Inside DuPage County Structure and Performance" DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.

¹¹ "Inside DuPage County Structure and Performance" DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.

¹² "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

¹³ Conference call with Nick Menninga. April 3, 2012.

¹⁴ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

¹⁵ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

¹⁶ Conference call with Nick Menninga. April 3, 2012.

¹⁷ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

¹⁸ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

¹⁹ "RE: Follow-up questions from Crowe" Email from Nick Menninga. January 16, 2012.

²⁰ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

²¹ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

²² "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

²³ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

²⁴ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

²⁵ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

²⁶ Meeting With Nick Menninga & Don Eckman. April 12, 2012

Highland Hills Sanitary District

Background

The Highland Hills Sanitary District is responsible for providing sanitary sewer service and public water supply to the area under its jurisdiction. This area is located in Lombard, between Roosevelt Road to the North; Meyers Road to the East; 22nd Street to the South; and Main Street Lombard to the West.¹ The District consists of 499 parcels of property.²

Enabling Statute

70 ILCS 2805 Sanitary District Act of 1936: Allows for the creation of sanitary districts to provide for the collection and disposal of sewage and to save and preserve the water supplied to the inhabitants of the district from contamination.³

Board Composition

By statute, the Board consists of three trustees that are compensated up to \$6,000 per year and serve three year terms. Per provided Board materials, Board meetings are held on the second and fourth Tuesday of every month at 11:00 a.m.⁴ Currently, the Highland Hills Sanitary Board has two trustees as one position has been vacant for over one year.⁵ The Board did not notify the County of this vacancy, and the County was unaware that a trustee had resigned until April of 2012.⁶

Financial Summary

- In 2010, the District issued a property tax levy of \$50,321 at a rate of .0998%.⁷ For a home with a market value of \$100,000 and an assessed value of \$33,000, the tax owed to Highland Hills Sanitary District would be \$32.94.
- The property tax applies to all property within the Highland Hills Sanitary District.
- For FY2011-2012, Highland Hills Sanitary District's total appropriation was \$405,082.91.⁸
- Highland Hills has one full time employee (office manager) and three part-time employees (two assistant billers and one lawyer). Employees do not receive pension, IMRF, or health insurance benefits.⁹

Observations

The following observations are derived from interviews with the Highland Hills Sanitary District, review of documents provided by the District, and best practice research.

Financial Analysis

The Financial Analysis below presents a few high level observations based on the District's reviewed financial statements. The District's financial statements were not audited, because it is not required to have an audit if its annual receipts are less than \$850,000. Crowe did not audit these financial statements, and the information presented as part of the analysis was primarily performed using summary or condensed financial data. The District operates on an April 30, fiscal year end. The latest reviewed financial statements are for the year ended April 30, 2011, dated June 23, 2011.

The Highland Hills Sanitary District has a net asset balance of about \$4.3 million as of April 30, 2011. Of the \$4.3 million dollars in net assets about 89%, or almost \$3.9 million, of the net assets represent investment in capital which are not assets available for operations or future capital repairs, maintenance or investment. Therefore, only \$471,000 in net assets represents amounts available for capital and other operational needs, as of April 30, 2011. The unrestricted net

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assets have been in decline by about 12% since April 30, 2008, when the balance was about \$534,000. In addition, the following observations were noted during the analysis of financial information:

- The District's unrestricted net assets of \$471,000 include a deficit amount of \$6,000 in its Corporate Fund. The Corporate Fund is responsible to pay for governmental operations of the District. Many of the governmental operations of the District are for administrative type costs and these costs are funded by property and personal property replacement taxes. The Corporate Fund had income of about \$52,800 and expenditures of about \$104,000 in fiscal year 2011, resulting in a net loss of about \$51,000. The fiscal year 2012 budget presents income and expenditure levels similar to those found in 2011, therefore, the trend in the Corporate Fund's unrestricted net assets may continue, unless spending is curtailed or rates and/or taxes are increased.
- The Corporate Fund has borrowed about \$72,000 from the Water and Sewer funds as of April 30, 2011, which is represented in the District's financial statements as a Due to/from Other Funds. Unless changes are made to the income or expenditure levels in the Corporate Fund this interfund borrowing is likely to increase and the borrowing will probably need to be relieved by utility operations.
- The District's expenditures have consistently exceeded its revenues, during fiscal years 2008 through 2011, expenses exceeded revenues by an average of approximately \$155,000 per year.
- In an inquiry we made to the District about the deficit spending and an increase in rates to cover the deficit spending, the District Clerk stated: "I believe the District has a standing policy of an annual review of customer rates in order to keep revenues adequate to 'cover' necessary spending."¹⁰ In a request for a rate analysis to support the Clerk's statement, the following response was received from the District's Clerk, "... monthly budget reports are utilized to audit income and expenses in the various funds. Annually after receipt of the audit any needed rate changes are implemented based on HHSD financial reports and any rate increases implemented by FCWRD (Flagg Creek Water Reclamation District)."¹¹ However, further details about annual rate reviews were not provided by the District. Upon further inquiry, the District has not conducted an independent rate study.¹²
- The District has not provided a net assets or budget stabilization policy to require and monitor the existence of funding available. Such a policy is critical as the District's infrastructure ages and improvements or replacements are necessary to comply with Federal and State environmental requirements.
- The District had approximately \$400,000 in cash and \$110,000 in accounts receivable as of April 30, 2011 with a customer deposit liability of \$29,000. The budgeted deficit for the year ended April 30, 2012, is approximately \$49,000 as shown below:

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Operation and Maintenance Expenses	\$ 385,083
Capital Improvements	<u>20,000</u>
 Total Revenue Requirements (appropriations)	 405,083
Less: General Real Estate Taxes	(50,249)
Water and Sewer Charges	(292,295)
Interest Income	<u>(13,790)</u>
 Budgeted Deficit	 <u>\$ 48,749</u>

Source: District's Ordinance 2011-12, Budget and Appropriation Ordinance

- The District has a budgeted amount for interest income in 2012 of \$13,790; however, it did not receive any interest income in fiscal year 2011. Therefore, it doesn't seem realistic that the District will receive the anticipated interest income in 2012 which could result in a budgeted deficit of nearly \$63,000. The District plans to use cash on hand to fund the deficit budget in fiscal year 2012, according to the appropriation budget.
- The District also budgeted a deficit in fiscal year 2011, in two of its three funds, in the net amount of about \$221,000. The actual deficit for the District's three funds was about \$140,000 which means that the deficit was about \$81,000 less than expected. While the deficit budgeting appears to be a conservative presentation of the spending plan, best practices provide that the budget should be more closely aligned to actual results to assist management's ability to monitor spending. Management of the District responded to our request for further information about the deficit spending, as follows:

"For the District's fiscal year ended April 30, 2011, the financial report reflected a loss of \$140,083. Of this amount, \$113,397 was due to depreciation, a noncash expense, which resulted in a cash loss for the fiscal year of \$26,686. During the fiscal year, the District was obligated to spend over \$36,000 in legal fees to defend itself against certain charges by a disgruntled former employee. It is certainly hoped that this matter will be resolved soon, and the related expenditures ended. This reduction in costs will eliminate the deficit spending. In all other respects, the District is very aware of its need to keep expenses in line with revenues, and it certainly does not plan to experience deficit spending in the future."³²

- At this time, litigation between the District and the former employee is ongoing.¹³
- The District's total expenditures and expenses totaled about \$485,000 for the year ended April 30, 2011. About \$104,000 of these total expenditures and expenses relate to general government activities. The general government activities include expenditures such as: administrative compensation, trustee compensation, legal and accounting, litigation, insurance and office related expenses, which appear to be of an administrative nature. The general government activities costs represent about 21% of the total expenditures and expenses of the District.

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Summary Financial Statements

The District operates on an April 30, fiscal year end. The latest reviewed financial statements are for the year ended April 30, 2011, which was dated June 23, 2011. The financial statements have not been audited, as the District's annual revenues have been below the threshold of \$850,000, as according to State Statute governmental entities with annual revenues in excess of the \$850,000 are required to be audited. The Tables below present a financial summary (amounts have been rounded to the nearest thousand consistent with the District's financial statements) for the District for fiscal years 2008 through 2011:

Summary Statement of Net Assets

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Current & Other Assets	523,000	514,000	516,000	577,000
Capital Assets	3,876,000	3,989,000	4,100,000	4,210,000
Total Assets	4,399,000	4,503,000	4,616,000	4,787,000
Other Liabilities	52,000	28,000	48,000	43,000
Total Liabilities	52,000	28,000	48,000	43,000
Net Assets				
Invested in capital assets	3,876,000	3,989,000	4,100,000	4,210,000
Unrestricted	471,000	486,000	468,000	534,000
Total Net Assets	4,347,000	4,475,000	4,568,000	4,744,000

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Summary Statement of Activities

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Revenues				
Program Revenues				
Charges for services	292,000	279,000	235,000	280,000
General Revenues				
Property Taxes	49,000	50,000	48,000	48,000
Other taxes	4,000	4,000	4,000	5,000
Other miscellaneous	-	6,000	13,000	20,000
Total Revenues	345,000	339,000	300,000	353,000
Expenses				
General government	104,000	84,000	142,000	53,000
Water and sewer	381,000	377,000	413,000	404,000
Total Expenses	485,000	461,000	555,000	457,000
Increase (Decrease) in Net Asset	(140,000)	(122,000)	(255,000)	(104,000)
Net Assets, Beginning of Year	4,487,000	4,568,000	4,744,000	4,848,000
Net Assets, End of Year	4,347,000	4,475,000	4,568,000	4,744,000

Source: District's Budget and Appropriation Ordinance dated July 26, 2011
District's Financial Statements for the years ended April 30, 2011 through 2008.

Organizational Efficiency

Organizational efficiency matters were discussed in a focus group session with Sanitary Districts held on November 29, 2011 and subsequent follow-up meetings with the District. References to this session are included within the comments below.

- Four different types of jurisdictions are involved in the provision and production of sanitary wastewater services in DuPage County - municipalities, sanitary districts (as authorized by Illinois Act of 1917), collection-only sanitary districts, and the county government.¹⁴
- Sanitary wastewater services divide into collection and treatment. The two related services are often, but not always, provided or produced by separate agencies.¹⁵
- Highland Hills Sanitary District is a collection-only sanitary district. Highland Hills contracts with Flagg Creek Water Reclamation District (FCWRD) for waste treatment. FCWRD operates completely independently from Highland Hills and determines its own method for

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waste treatment (within the guidelines of the US and Illinois Environmental Protection Agencies). Because Highland Hills relies on Flagg Creek for treatment, it does not have control of one of its largest costs, and may be vulnerable to FCWRD rate increases.¹⁶

- In 1992, a report was issued by the DuPage Intergovernmental Task Force that contained the following observations about the division of responsibilities of Sanitary Districts in DuPage County:¹⁷ Divided responsibility between collection and treatment can result in higher total sewer charges and can present a problem of coordination in the provision of collection and treatment. The report recommended closing smaller treatment plants and shifting to larger scale plants and to shift collection responsibilities to the treatment agency, unless the treatment facility can measure the influent and can charge the collection jurisdictions proportionately.
- While the DuPage Intergovernmental Task Force Report is over 20 years old, some elements of the recommendations still may hold relevance today on a scale of stand-alone sanitary districts under the oversight of the County. Highland Hills Sanitary District, as a collection only district, faces several issues because it doesn't own the treatment facilities. Therefore, this report may provide a model for future review to determine if there are more efficient means that the District can operate in by consideration of the recommendation of the report regarding the collection system ownership.
- Highland Hills is also responsible for water in its service area. The District hires an independent contractor for water operations who works on an as needed basis.¹⁸ Highland Hills has an intergovernmental agreement with Lombard, such that if one water pump stops working, they would continue to have flow of water in the interim and would not have to buy emergency water.¹⁹
- Highland Hills also tests their collection system through television and smoke tests. They believe their public water system is in good condition.²⁰ As a follow-up request to the District's assertion we requested a condition assessment of the District's collection system. We did receive the report from the District's consulting engineers; however, the report was completed in the year 2000. Therefore, the report is over twelve (12) years old, the data contained within the report is not current, and we don't believe the report can be relied upon. Furthermore, the report is a systems overview report not a system or infrastructure assessment report so the purpose of the report may not provide a complete study of the condition of the District's infrastructure.

Duplication of Effort/Service

- There maybe some potential gains in efficiencies by sharing services that are used across the Districts, such as IT, HR, utility billing and collection, health insurance, laboratory services, construction, joint procurement or purchasing agreements.²¹

In addition, since the District currently does not operate a treatment facility, certain cost efficiencies in a shared services model or consolidation with Flagg Creek Water Reclamation District must be considered. In addition, since the District operates the water distribution system including wells certain cost savings maybe achieved under a shared services model or consolidation of water operations with other area providers. While a complete and a detailed analysis is necessary to determine the savings that can be achieved through a complete shared services or consolidated operational model a preliminary high level analysis indicates that potentially the District could save over \$100,000 per year, or about 25% of their annual budgeted expenses through alternative service models. The estimated savings amount does not factor in the cost of further studies or any consolidation costs, but due to the small size of the District's operations consolidation or shared services are possible and should be studied. Actual cost savings will depend upon the measures taken to reduce or eliminate expenses.

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Procurement Methodology

- Highland Hills Sanitary District did not provide a copy of their procurement policy. Instead, they indicated that the District follows the procurement rules in Section 11 of the Sanitary District Act of 1917 (70 ILCS 2405/11) and the Illinois Procurement Code (30 ILCS 500).²²
- The District noted that whenever they are out to bid for televising, they will contact their counterparts within the Village of Lombard to try to bid together.²³

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison with the County's Ethics Policy, we found that the District's policy did not address the following items:

- Political contribution limit
- Ethics training requirement
- Complaint filing procedure and whistleblower protection
- Contractor disclosure of political contributions
- Board disclosure of political contributions
- Conflict of interest
- Future employment
- Former employment relationships

Credit Cards

- Highland Hills Sanitary District does have credit cards in use. In practice, no district credit card may be utilized without prior authorization from the Board of Trustees or a supervisor. The District also maintains a low credit limit and maintains that no personal purchases may be made with the District's credit card.²⁴
- The District did not provide a written policy regarding credit cards.

Other

The District did submit an employee roster and salary schedule in accordance with Ordinance OCB-001-11. It did not submit a personnel policy.

Transparency and Accountability

- Highland Hills Sanitary District does not have a website.
- Highland Hills did not notify DuPage County upon the resignation of one of their trustees.²⁵
- Because Highland Hills does not have a website, meeting agendas and meeting minutes are not as accessible to constituents.

Regulation

- Sanitary Districts are heavily regulated by the Federal and State governments, in things such as rate structure and plant effluent.²⁶ The significant issues facing Sanitary Districts today are pending regulations from the US Environmental Protection Agency (EPA) on biological nutrient removal (phosphorus and nitrogen), peak wet weather treatment (blending), and ammonia. These regulations could mandate substantial capital improvement costs. National Pollutant Discharge Elimination System (NPDES) permits from IEPA are already starting to reflect a shift in EPA's mindset on these matters.²⁷

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- Highland Hills Sanitary District is a member of the Illinois Association of Waste Water Agencies (IAWA) which provides educational, legislative, and legal services to its members.²⁸ The Districts noted there is a need for unified and collaborative advocacy from all DuPage County wastewater agencies.²⁹

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Stabilize the Financial Condition

- The District has been following a deficit spending pattern over the past few years. The continuation of deficit spending will cause the District potential future problems and calls into question whether the District is sustainable over the near and long-terms. We recommend that the District determine how to address the deficit funding situations through a reconsideration of the rates that are currently in place by evaluating the rates through a detailed analysis of the costs of services.

Consider a rate increase and prepare a formal rate analysis

- The District will need to consider a rate increase in the near future as the continuance of deficit spending will deplete its cash reserve. In addition, the District should develop a financial plan to determine how to fund future capital needs. In order to determine the appropriate rates, the District should have a formal rate analysis performed to determine the appropriate charges necessary to stabilize the operations and to provide for capital improvements.

Compliance with County Ordinance OCB-001-11

- The District did not comply with several requests for further information related to the study we conducted. The District was required to comply with County Ordinance OCB-001-11 by providing information within 5 business days of the request. As part of our study we requested a rate analysis to support the rates that the District charges. We eventually received the requested information, but did not receive it within the required 5 business days.

Implement a Net Assets Policy

- Identify a minimum level of unrestricted net assets to be maintained.
- Regarding its expenditure-revenue gap, the District should also identify which types of expenditures, specifically, are driving the changes in expenses year over year. These cost drivers should be analyzed to determine if they may be mitigated or otherwise controlled so as to reduce any impact on unrestricted net assets.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office
- Consider assigning County staff to serve as a liaison between Highland Hills Sanitary District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website

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Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Ethics

In order to more fully align its policy with the ethics policy standard of the County, we recommend that the Highland Hills Sanitary District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Complaint filing procedure and whistleblower protection
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest – We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Credit Cards

We recommend that the District limit its use of credit cards and implements a written credit card policy, which includes at least the following information:

- Names of the credit cards (BP, Home Depot, Visa, etc.)
- Names of positions authorized to use credit cards. Credit cards should only be used by employees with a reasonable need for use.
- Board members are not considered employees with a reasonable need for use of credit cards

Structural Recommendations

The following recommendations apply to the long-term sustainability of the organization and may require structural change.

Reduce and eliminate reliance on Property Taxes

- As previously summarized, the Highland Hills Sanitary District levies over \$50,000 in property taxes each year. The District is allowed to levy property taxes by State Statute and uses the taxes for operational purposes. As a governmental utility, a best practice will be to provide its services without the use of property taxes. Such a change will provide more equitable charges to the users of the utility system. We recommend that the District develop a financial plan to begin to reduce the reliance on property taxes and ultimately eliminate the property tax levy and provide for such revenues through user fees. As an alternative, the District could seek a voter referendum to determine if the voters are willing to continue the property tax levy versus charging users for the sanitary services provided by the District.

Study the potential consolidation of the Highland Hills Sanitary District

- The Highland Hills Sanitary District is facing a structural financial deficit and the situation is further compounded by increased regulation from the EPA and the reliance it must place on the Flagg Creek Water Reclamation District. Therefore, consolidation of the District with another entity, or entities, must be considered to afford more opportunities to be efficient and gain some economies. Several matters of concern about the sustainability of the operations that have been mentioned previously in this report point to the need of further study to determine whether the consolidation of services with another entity will be in the best interests of the customers of the District and the County. Management of the District has not been timely in responding to requests for further information about the rates that will be necessary to sustain the District financially and a current assessment of the condition of the District's assets has not been provided to determine the cost that is necessary to maintain and sustain the infrastructure of the District.

We recommend that the District, with the surrounding community and service providers, study the viability of the District as a stand-alone entity and to determine if its customers and the County will be more efficiently served by a consolidated entity or entities. The study should also consider the financial sustainability for the long-term. Once a better understanding of the long-term financial health of the District is ascertained, a long-term financial plan should outline the future capital needs of the infrastructure and how the organization proposes to address those needs. Such a study can provide the framework for the consolidation of the District.

It should be noted that the County has the power to appoint new trustees to the District Board, but it does not have direct oversight of the District, nor does it have the power to force any action such as consolidation. Any assistance that the County could provide would need to be done collaboratively. If the District is not willing to work collaboratively, then the County may need to seek new leadership for the District. Also, the County may need to seek legislative change to force the District into action if the District fails to act on its own.

Create a formal intergovernmental coalition of Sanitary Districts

- Such a coalition would explore potential consolidation of smaller waste water treatment plants, transfer of collection-only jurisdiction responsibilities to treatment provider, other options for shared services, and sharing of best practices.
- This should include all districts and municipalities providing sanitary services, the majority of which were not reviewed in this project.

Conclusion

Based on our analysis we believe there are significant concerns that will need to be addressed related to the sustainability of the Highland Hills Sanitary District. Continued erosion of the District's net assets due to deficit spending, the age of the infrastructure and lack of response from Management of the District are all matters that should be acted on expeditiously by the District's trustees. We are recommending that the County consider further dialog and study with the District to determine how consolidation of the District can be accomplished. Prior to any consolidation, further analysis of the District's financial condition should also be made to determine what steps are necessary to provide for the future sustainability of the District. The County does not have the power to force the District into any action, including consolidation; however, the County may have an obligation to resolve financial solvency issues if the District does not address such issues. Therefore, the County may need to collaboratively provide guidance and assistance. If the District is not willing to work with the County, then new leadership for the District should be considered. In addition, the County may need to seek legislative change if the District fails to act on its own. It is important for the County to continue the dialog with the District to potentially avoid this outcome.

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¹ “Highland Hills Sanitary District” DuPage County Website. Accessed Jan. 10, 2012.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31523/

² “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.

³ “Illinois Compiled Statutes: Special Districts (70 ILCS 2805/) Sanitary District Act of 1936.” Illinois General Assembly Website. Accessed January 10, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=970&ChapterID=15>

⁴ “Resolution 2010-03 A Resolution Providing Public Notice the Schedule of Regular Meetings of Highland Hills Sanitary District for Calendar Year 2011” Highland Hills Sanitary District. December 14, 2010.

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31523/

⁵ Call with Patricia Lauten-Most. April 13, 2012.

⁶ “Email from Sheryl Markay” April 12, 2012.

⁷ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk.

⁸ “Ordinance 2011-01 Budget and Appropriation Ordinance” Highland Hills Sanitary District. July 26, 2011. Pg.4.

⁹ Conference call with Highland Hills’ staff. April 5, 2012.

¹⁰ Letter from Patricia Lauten-Most, Clerk of Highland Hills Sanitary District to Crowe Horwath, dated March 9, 2012.

¹¹ Email from Patricia Lauten-Most, Clerk of Highland Hills Sanitary District to Crowe Horwath, dated March 16, 2012.

¹² Conference call with Highland Hills’ staff. April 5, 2012.

¹³ Voicemail from John Brechin. April 6, 2012.

¹⁴ “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.

¹⁵ “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.

¹⁶ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

¹⁷ “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.

¹⁸ Conference call with Highland Hills’ staff. April 5, 2012.

¹⁹ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²⁰ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²¹ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²² “Illinois Compiled Statutes: Special Districts (70 ILCS 2405/11) Sanitary District Act of 1936.” Illinois General Assembly Website. Accessed January 10, 2012.

<http://www.ilga.gov/legislation/ilcs/fulltext.asp?DocName=007024050K11>

²³ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²⁴ “Fax from Highland Hills Sanitary District” John Brechin. January 24, 2012.

²⁵ “Email from Sheryl Markay” April 12, 2012.

²⁶ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²⁷ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²⁸ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

²⁹ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

Salt Creek Sanitary District

Background

The Salt Creek Sanitary District is responsible for providing sanitary sewer service to the Villa Park area.¹ The District consists of 7,585 parcels of property.

Enabling Statute

70 ILCS 2405 Sanitary District Act of 1917: Allows for the creation of sanitary districts to govern the construction and maintenance of a plant(s) for the purification and treatment of sewage and the maintenance of the outlet for the drainage of treated sanitary waste water.²

Board Composition

The Board consists of three trustees that are compensated \$4,000 per year and serve three year terms.³ According to the District, Board meetings are held once per month, but this could not be verified with a published schedule of board meetings.⁴

Financial Summary

- Although they have the authority to do so, Salt Creek Sanitary District does not levy a property tax. Their primary source of revenue comes from waste water user fees.⁵
- For FY 2012, Salt Creek Sanitary District's total appropriation was \$3,593,301.⁶
- The District has 9 full-time employees and 1 part-time employee according to its organizational chart.⁷

Observations

The following observations are derived from interviews with the Salt Creek Sanitary District, review of documents provided by the District, and best practice research.

Financial Analysis

The Financial Analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements, and the information presented as part of the analysis was primarily performed using summary or condensed financial data. The District operates on an April 30, fiscal year end. The latest audited financial statements are for the year ended April 30, 2011, dated October 19, 2011.

There are several items within the Salt Creek Sanitary District's financial statements that present some concern. Specifically, we noted the following observations:

- The District's net assets have decreased by about \$639,000, or 9%, over the past 4 years with the ending net asset balance of about \$6.5 million, as of April 30, 2011.
- The District's net assets have decreased each of the past four years by an average of about \$167,000 per year. Most recently, the District's net assets declined by nearly \$194,000 and \$296,000 in fiscal years 2011 and 2010, respectively. The decrease has occurred partially because the District has not completely provided for depreciation expenses in fees charged to District users. Depreciation expense reported in the District's financial statements was about \$679,000 and \$657,000 in fiscal years 2011 and 2010, respectively. While it is understandable from a cash basis that the depreciation not be completely considered in the rate, a best business practice is for utilities to cover for costs of the maintenance and planned

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replacement of facilities. Depreciation expense may not be the only method to plan for maintenance, repair or replacement, it can serve as an indicator of how well an organization is planning for such future expenditures.

- The District's annual operating expenses have increased by about \$320,000, or about 15% over the past four years.
- The District's annual user charge revenues have declined by about \$100,000 over the past four years or about 5% to a level of about \$1.9 million for fiscal year 2011.
- While the unrestricted net assets balance as of April 30, 2011, is almost \$1.8 million which represents about one year of the District's operating expenses, the trend of the decline of net assets calls into the question the long-term sustainability of the District.

The District has a budgeted deficit of about \$612,000 for fiscal year 2012. According to the District, although the District regularly budgets for an annual deficit, it has not expended to the budgeted levels; therefore, the district has historically complied with their budget requirements. The estimated deficit in the budget is broken down as follows:

	Budget 2012
Operation and Maintenance Expenses	\$ 1,688,558
Capital Improvements	507,578
Debt Service	<u>612,865</u>
 Total Revenue Requirements	 2,809,001
 Less: Replacement Taxes	 (38,273)
Sewer Charges	(2,143,700)
 Interest	 (13,797)
Other Income	<u>(694)</u>
 Deficit	 <u><u>\$ 612,537</u></u>

- In July 2011 the wastewater user fees increased by \$0.10 per 1,000 gallons and the capital project fees by \$0.15 per 1,000 gallons. The projected sewer charges for FY 2012 increase to \$2,143,700. If the District spends the amount allowed in the appropriation budget for FY 2012, the District will experience a deficit. However, the District has monitored the operating results for FY 2012 and believes that the actual results will not lead to a deficit for the current fiscal year.
- The District has prepared a rate setting worksheet to guide them on the rates that will be necessary to operate and provide for capital related items through debt service payments for about 25 years, through the year 2036. The worksheet has been prepared by the District with some input from the District's engineer. The worksheet was used to prepare a presentation to the District's Board of Trustees to explain the need for rate increases and the timing of any rate increases based on the capital improvements and debt service requirements. While the rate setting worksheet does project rates and the increases that

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may be necessary, the analysis did not present details of expenses to help understand the cost structure that support the rate. In addition, the worksheet projects a fee increase of 56.5% over the next 15 years. The rate will remain at that level for the subsequent 10 years to pay for the debt burden to fund capital improvements to comply with EPA requirements. Therefore, the rate increases from a current amount of \$3.53 to \$6.14 per 1,000 gallons in about 15 years. The tolerance of the customers to absorb such an increase is not known but the increase does represent a significant increase to users of the system.

- The District has also planned for major construction at the Treatment Plant to address upgrades necessary to continue to meet standards of the federal and state regulators. Management of the District informed us that they have recently received approval for construction by the Illinois EPA and that a bid opening will be occurring during April of 2012, with the intention of contracting for the work that will commence soon thereafter. The project will primarily be funded through the State's Revolving Loan Fund.⁸

Summary Financial Statements

The District operates on an April 30, fiscal year end. The latest audited financial statements are for the year ended April 30, 2011. The Tables below present a financial summary for the District for fiscal years 2008 through 2011:

Summary Statement of Net Assets

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Current & Other Assets	3,947,542	4,138,801	4,318,013	4,453,883
Capital Assets	9,374,784	9,678,449	10,219,801	10,705,654
Total Assets	13,322,326	13,817,250	14,537,814	15,159,537
Long Term Debt Outstanding	6,528,083	6,966,928	7,394,318	7,810,557
Other Liabilities	274,471	136,809	134,051	190,371
Total Liabilities	6,802,554	7,103,737	7,528,369	8,000,928
Invested in capital assets, net of related debt	2,846,701	2,711,521	2,825,483	2,895,097
Restricted for equipment replacement	925,087	1,004,419	1,048,417	1,137,209
Restricted for debt service	955,251	1,009,041	1,107,071	1,171,829
Unrestricted	1,792,733	1,988,532	2,028,474	1,954,474
Total Net Assets	6,519,772	6,713,513	7,009,445	7,158,609

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Summary Statement of Activities

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Operating Revenues	2,022,993	1,919,061	1,965,742	2,001,582
Nonoperating Revenues (expenses)	(120,166)	(140,228)	(72,584)	1,989
Total Revenue	1,902,827	1,778,833	1,893,158	2,003,571
Depreciation Expense	679,072	657,056	666,927	673,705
Other Operating Expense	1,792,903	1,533,647	1,582,100	1,476,439
Total Expenses	2,471,975	2,190,703	2,249,027	2,150,144
(Loss) before capital contributions	(569,148)	(411,870)	(355,869)	(146,573)
Capital Contributions	375,407	115,938	206,705	115,811
Change in net assets	(193,741)	(295,932)	(149,164)	(30,762)
Net Assets, Beginning of Year	6,713,513	7,009,445	7,158,609	7,189,371
Net Assets, End of Year	6,519,772	6,713,513	7,009,445	7,158,609

Sources:

1. Salt Creek Sanitary District 4-30-11 Annual Financial Report
2. Salt Creek Sanitary District 4-30-10 Annual Financial Report
3. Salt Creek Sanitary District 4-30-09 Annual Financial Report

Organizational Efficiency

Organizational efficiency matters were discussed in a focus group session with Sanitary Districts that was held on November 29, 2011 and subsequent follow-up meetings with the District. References to these sessions are included within the comments below.

- Four different types of jurisdictions are involved in the provision and production of sanitary wastewater services in DuPage County - municipalities, sanitary districts (as authorized by Illinois Act of 1917), collection-only sanitary districts, and the county government.⁹

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- Sanitary wastewater services divide into collection and treatment. The two related services are often, but not always, provided or produced by separate agencies.¹⁰ Salt Creek Sanitary District provides treatment only for the waste water from the Village of Villa Park. It does not own or maintain the collection system that flows into its treatment plant. Because, it does not control the collection system, the District is not able to control the volume of influent which can substantially affect cost of treatment.¹¹
- In 1992, a report was issued by the DuPage Intergovernmental Task Force that contained the following observations about the division of responsibilities of Sanitary Districts in DuPage County. Divided responsibility between collection and treatment can result in higher total sewer charges and can present a problem of coordination in the provision of collection and treatment. The report recommended closing smaller treatment plants and shifting to larger scale plants and to shift collection responsibilities to the treatment agency, unless the treatment facility can measure the influent and can charge the collection jurisdictions proportionately.¹²
- While the DuPage Intergovernmental Task Force Report is over 20 years old, some elements of the recommendations still may hold relevance today on a scale of stand-alone sanitary districts under the oversight of the County. Salt Creek Sanitary District, as a treatment only facility, faces several issues related to the cost of treatment because it doesn't own the collection system. Therefore, this report may provide a model for future review to determine if there are more efficient means that the District can operate in by consideration of the recommendation of the report regarding size of the treatment plant and the collection systems.
- Salt Creek maintains a facility plan that assists in scheduling upcoming capital improvements. The facility plan was most recently updated in 2010.¹³ Salt Creek has addressed many infrastructure issues within the past 10 years, using ARRA grants and the State Revolving Fund (SRF). In 2006, the District completed a \$7 million project that expanded the plant's sludge capacity by 50%.¹⁴ The District has some major capital improvements planned for the coming years; however, after this time period, they believe they won't have the need for any major projects for 20 to 30 years.¹⁵
- In order to create cost savings, the District has implemented several recent changes:¹⁶
 - The Board of Trustees reduced its salaries by 33% and eliminated dental and life insurance benefits for trustees.
 - Eliminated the position of Treasurer.
 - Eliminated the position of Plant Supervisor and replaced it with two part-time positions.
 - Reduced the number of full-time employees from eleven to nine.
 - Installed System Control and Data Acquisition (SCADA) software in order to respond remotely to alarms and thereby reduce overtime pay.
 - Locked in a reduced electricity rate for two years.
 - Due to lower energy costs and lower salaries the District is anticipating this year's (Fiscal Year 2012) Operations and Maintenance budget to be around \$100,000.00 less than the Fiscal Year 2010/2011 audited numbers.¹⁷
 - With the retirement of the Plant Manager on September 30th of this year and replacing one full time employee with two-part time positions, the District's costs for wages and fringe benefits will conservatively be \$100,000.00 lower over the next two fiscal years.¹⁸

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Duplication of Effort/Service

- The District's Plant Manager is retiring on September 30, 2012, and the District has a history of promoting from within to replace turnover in positions. It is anticipated that a current employee will be promoted to fill the Plant Manager position.
- There could be some potential gains in efficiencies by sharing services that are used across the Districts, such as IT, HR, utility billing and collection, laboratory services, construction, health insurance, joint procurement or purchasing agreements.¹⁹ This District did indicate that it has been approached by the Village of Villa Park about sharing utility billing services; however, the District perceives that they have handled the billing function more effectively than the Village. The District also currently outsources its laboratory services and believes the cost to be competitive.²⁰
- In addition, since the District owns and operates a treatment facility but it does not own the collection system, certain cost efficiencies in a shared services model or consolidation with another entity should be explored. Since the Village of Villa Park owns the collection system, a potential opportunity exists for cost savings under shared service model or consolidation by eliminating duplicated personnel costs. Another alternative for shared services or for consolidation that also exists due to the unique location of the Salt Creek treatment plant. The District's Treatment Plant is situated next to the City of Elmhurst's Treatment Plant. Therefore, another alternative is for the District to consider shared services or consolidation with the City of Elmhurst's Treatment Facility. While a complete and a detailed analysis is necessary to determine the savings that can be achieved through a complete shared services or consolidated operational model a preliminary high level analysis indicates that potentially the District could save over \$300,000 per year, or slightly less than 10% of their annual budgeted expenses through alternative service models. The estimated savings amount does not factor in the cost of further studies nor any consolidation costs, but due to the small size of the District's operations, consolidation or shared services are possible and should be studied. Actual cost savings will depend upon the measures taken to reduce or eliminate expenses.

Procurement Methodology

Salt Creek does not have its own procurement policy. In practice, the District sends any procurement over \$10,000 to bid. Section 11 of the Sanitary District Act of 1917 (70 ILCS 2405/11) governs the District's bidding requirements when applicable.

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison with the County's Ethics Policy, we found that the District's policy did not address the following items:

- Political Contribution Limit
- Ethics training requirement
- Complaint filing procedure and whistleblower protection
- Contractor disclosure of political contributions
- Board disclosure of political contributions
- Conflict of interest
- Future employment

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- Former employment relationships

Credit Cards

- Salt Creek has four credit cards that are used by the District. None of the District trustees have access to these credit cards.
 - Two (VISA) cards that can be used for any purchase.
 - Two American Express cards that are only used at COSTCO.
 - Cards are in the names of the Business Administrator and the Plant Manager.
- Salt Creek does not have a formal credit card policy in place.
- In practice, cards are kept locked in the Business Administrator's office. They are given out when a purchase needs to be made and are immediately returned to the Business Administrator's office. All credit card purchases are reviewed by the Trustees at Board meetings.

Other

Salt Creek's organizational chart, salary information, and personnel policy was submitted to the county in accordance with Ordinance OCB-001-11.

Transparency and Accountability

- Salt Creek does not maintain a website. They may consider accepting the County's offer to utilize the County's website to provide access to the public about information of the District.

Regulation

- Sanitary Districts are heavily regulated by the Federal and State government, in things such as rate structure and plant effluent.²¹ The Sanitary Districts today face pending regulations from the US Environmental Protection Agency (EPA) on biological nutrient removal (phosphorus and nitrogen), peak wet weather treatment (blending), and ammonia. These regulations could mandate substantial capital improvement costs. National Pollutant Discharge Elimination System (NPDES) permits from IEPA are already starting to reflect a shift in EPA's mindset on these matters.²² Recent and upcoming improvements to its plant are intended to handle known and anticipated changes in regulations.²³
- When there are large changes in regulations, Sanitary Districts will incur large costs to bring their systems into compliance. Typically the only funding that is available to cover such costs are State Revolving Fund (SRF) loans.²⁴
- Salt Creek Sanitary District is a member of the Illinois Association of Wastewater Agencies (IAWA) which provides educational, legislative, and legal services to its members.²⁵ The Districts noted there is a need for unified and collaborative advocacy from all DuPage County wastewater agencies.²⁶

Operational Recommendations

The following are recommendations that could be implemented with little to no change in the structure of the organization.

Stabilize the Financial Condition

- The District has been following a deficit spending pattern over the past few years. While the current condition is stable, the continuation of deficit spending will cause the District potential future problems and calls into question whether the District is sustainable over the long-term. We recommend that they begin the process to determine how to address the deficit funding situations through a reconsideration of the rates that are currently in place by evaluating the rates through a detailed analysis of the costs of services.
- The District prepared a rate analysis to show that user rates will need to increase by 56.5% during the next 15 years in order to pay for capital improvements that are necessary to the plant. The improvements will be funded by the issuance of debt. However, based on a review of the rate analysis there were improvements that we recommend for incorporation into the rate structure process. The rate analysis did not provide details related to the costs that are necessary to operate the plant and provide for a more complete build-up of the rates through a cost of services study.

Improve Financial Controls

- The District budgeted for a deficit in fiscal year 2012 and the District believes that the actual spending in FY 2012 will not result in a deficit. While the deficit budgeting appears to be a conservative presentation of the spending plan, best practices provide that the budget should be more closely aligned to actual results to assist management in monitoring spending. The District should continue to regularly monitor its rates and user charges and spending to align with its spending plan.
- The District has eliminated the position of Treasurer to provide cost savings. While we are supportive of measures to provide cost savings for the District's customers, we recommend that the District review job functions and responsibilities to ensure that internal controls surrounding the District's fiscal operations are not jeopardized due to the lack of segregated duties.

Share other services or participate in joint purchasing with another district, municipality or the County

- Several specific areas for shared services or joint purchasing that should be explored include: sharing of IT and HR functions, sharing utility billing services, purchasing of chemicals, centralized laboratory services and bidding of underground construction.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office
- Consider assigning County staff to serve as a liaison between Salt Creek Sanitary District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

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Implement Internal Controls Policies

Ethics

In order to more fully align its policy with the ethics policy standard of the County, we recommend that the Salt Creek Sanitary District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Complaint filing procedure and whistleblower protection
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest - We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Credit Cards

We recommend that the District limit its use of credit cards and implement a written credit card policy, which includes at least the following information:

- Names of the credit cards (BP, Home Depot, Visa, etc.)
- Employee positions authorized to use credit cards. Credit cards should only be used by employees with a reasonable need for use.
- Board members are not considered employees with a reasonable need for use of credit cards.

Structural Recommendations

The following recommendations apply to the long-term sustainability of the organization and may require structural change.

Study the Potential Consolidation or the Sharing of Services

- Salt Creek Sanitary District is entering a period of time where the consideration of consolidation with another entity should be evaluated to afford more opportunities to be efficient and gain some economies. Several matters of concern about the sustainability of the operations that have been mentioned previously in this report point to the need of further study to determine whether the consolidation of, or the sharing of, services with another entity

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will be in the best interests of the customers of the District and the County. Such matters include the following:

- Deficit spending over the past few years,
 - Proximity to another treatment plant,
 - Increased regulations from the EPA,
 - Management retirement and transition.
- Management of the District has recognized the need to cut costs as it has taken some steps to reduce Trustee compensation, reduced staff and renegotiated energy costs. Further efforts should be undertaken to ensure the future fiscal stability of the District. Management of the District believes that the District is in sound financial shape and we are supportive of their efforts to manage costs, however, with the retirement of the current manager and without a documented plan to provide guidance to new management we are concerned that a sustainable model has been developed.
 - The District has identified two major capital projects that will be undertaken in the next few years to improve the plant. The capital projects will require significant rate increases of approximately 56.5% within the next 15 years to retire the debt that will be necessary to fund these improvements. The long-term affordability of the plant operating as a treatment only facility in light of some of the fundamental EPA issues should also be studied to better understand the long-term investment necessary to ensure compliance with regulatory matters.
 - We recommend that the District and the community that serves the District study the viability of the District as a stand-alone entity and to determine if its customers and the County will be more efficiently served by a consolidated entity or by a formal shared services agreement with nearby communities. The study should also consider the financial sustainability for the long-term. Once a better understanding of the long-term financial health of the District is ascertained, a long-term financial plan should outline the future capital needs of the plant and equipment and how the organization proposes to address those needs. Such a study can provide the framework for determination of whether consolidation or shared services can address the future potential structural challenges of the District. Both the Village of Villa Park and the City of Elmhurst should be considered when investigating potential options for shared services and consolidation. It should be noted that the County has the power to appoint new trustees to the District Board, but it does not have direct oversight of the District, nor does it have the power to force any action such as consolidation. Any assistance that the County could provide would need to be done collaboratively.

Create a formal intergovernmental coalition of Sanitary Districts

- Such a coalition would explore potential consolidation of smaller waste water treatment plants, transfer of collection-only jurisdiction responsibilities to treatment provider, other options for shared services, and sharing of best practices
- This should include all districts and municipalities providing sanitary services, the majority of which were not reviewed in this project

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Conclusion

The Salt Creek Sanitary District is considered a stable organization that is showing indications of decline. The erosion of the District's net assets due to deficit spending, the age of the property and plant, and changes in key personnel call into question the ability of the District to remain a sustainable organization. We are recommending that the County consider further dialog with the District to determine if consolidation or shared services of the District with another sanitary district or municipality should be considered and result in further study. Prior to any consolidation further analysis of the District's financial condition should also be made to determine what steps are necessary to provide for the future sustainability of the District. The County does not have the power to force the District into any action, including consolidation. However, the County may collaboratively provide guidance and assistance.

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- ¹ “Salt Creek Drainage Basin Sanitary District” DuPage County Website. Accessed Jan. 10, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31584/
- ² “Illinois Compiled Statutes: Special Districts (70 ILCS 2405/) Sanitary District Act of 1917.” Illinois General Assembly Website. Accessed January 10, 2012.
<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=967&ChapterID=15>
- ³ “Salt Creek Sanitary District” Email from Sheryl Markay. Jan. 12, 2012.
- ⁴ “Salt Creek Drainage Basin Sanitary District” DuPage County Website. Accessed Jan. 10, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31584/
- ⁵ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ⁶ “Budget/Appropriation Ordinance” Salt Creek Sanitary District. Not Dated. Pg.2.
- ⁷ “OrganizationSCSD” Salt Creek Sanitary District. Pgs. 1-3
- ⁸ Conference Call with Fred Dale. April 3, 2012.
- ⁹ “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.
- ¹⁰ “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.
- ¹¹ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ¹² “Inside DuPage County Structure and Performance” DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.
- ¹³ Conference Call with Fred Dale. April 3, 2012.
- ¹⁴ Conference Call with Fred Dale. April 3, 2012.
- ¹⁵ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ¹⁶ “Letter to County Board Chairman Cronin from Fred Dale, District Manager” Salt Creek Sanitary District. September 27, 2011. Pg.1.
- ¹⁷ Correspondence from Fred Dale on March 8, 2012.
- ¹⁸ Correspondence from Fred Dale on March 8, 2012.
- ¹⁹ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ²⁰ Conference Call with Fred Dale. April 3, 2012.
- ²¹ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ²² “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ²³ Conference Call with Fred Dale. April 3, 2012.
- ²⁴ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ²⁵ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.
- ²⁶ “Interview Notes” Focus Group with Sanitary Districts. November 29, 2011.

Wheaton Sanitary District

Background

Wheaton Sanitary District was created in 1925, and in 1926, it began treating wastewater on a 35 acre site located on Shaffner Road just north of Mack Road. Today, Wheaton Sanitary District treats wastewater for a population of about 62,000 spread over about 9,000 acres including most of Wheaton, southern Carol Stream, a small portion of Glen Ellyn, a small portion of Winfield, and unincorporated areas of DuPage County, including the County complex.¹ The District consists of 18,032 parcels of property.² According to its Personnel Roster, the District has 28 full time employees.³

Enabling Statute

70 ILCS 2405 Sanitary District Act of 1917: Allows for the creation of sanitary districts to govern the construction and maintenance of a plant(s) for the purification and treatment of sewage and the maintenance of the outlet for the drainage of treated sanitary waste water.⁴

Board Composition

The board consists of three trustees that are compensated \$6,000 per year and serve three year terms. Per provided Board materials, Board meetings are held on the second Wednesday of the month at 9:00 a.m.⁵

Financial Summary

- The District has not levied a property tax since 1977 when their user charge system was implemented.⁶ Most of the revenue for operations is generated from user charges, based on water consumption. The balance of revenue comes from connection permit fees, septage disposal, leachate disposal, and chemical toilet disposal.⁷
- For FY2011-2012, Wheaton Sanitary District's Budget and Appropriation Ordinance budgeted \$14,992,797 in expenditures.⁸

Observations

The following observations are derived from interviews with the Wheaton Sanitary District, a review of documents provided by the District, and best practice research.

Financial Analysis

The Financial Analysis below presents a few high level observations based on a review of audited financial statements. Crowe did not audit these financial statements and the information presented as part of the analysis was primarily performed using summary or condensed financial data. The District operates on an April 30, fiscal year end. The latest audited financial statements are for the year ended April 30, 2011, dated October 24, 2011.

Overall, the District's financial condition is stable and management of the District has employed best business practices in managing its financial matters as it has built reserves to help fund planned capital improvements. There were a few trends noted within the District's financial statements that were explained within the notes to the statements and within subsequent discussions with Management. The trends and explanations are as follows:

- Expenses have exceeded revenues by over \$100,000 each year for the past 2 years (approximately \$179,000 in 2010 and \$104,000 in 2011). The additional expenses were planned by the District for capital improvement purposes and to reduce reserves.
- In fiscal year 2010, expenses increased by nearly \$1.1 million or 21% over fiscal year 2009 levels. In fiscal year 2011, expenses increased by about \$106,000 or 2% over fiscal year 2010 levels. According to the District's financial statements, for both years, the reason was

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primarily due to increased maintenance costs and personnel costs associated with the transition to a new Plant Superintendent.

- The District had a net decrease in cash and investments of about \$940,000 for the year ended April 30, 2011, leaving a balance of about \$6,483,000 as of April 30, 2011. The decrease can be attributed to planned acquisition and construction of fixed assets during the year.
- Unrestricted net assets represent the resources, including net cash, investments and other available assets that the District has available for operational and capital needs. The District's unrestricted net assets have decreased by over \$3.2 million or 33% over the past 4 years. The decrease can be attributed to investment in plant and equipment.
- Long-term debt has increased by over \$9.6 million over the past 4 years largely due to the investment in net capital or fixed assets of about \$10.3 million. The debt and the capital asset increases were due to additional loans available to the District through the American Recovery and Reinvestment Act (ARRA).

The District has budgeted a deficit for the year ended April 30, 2012 of approximately \$1.1 million, as shown below.

	Appropriation <u>Budget</u>
Operation and Maintenance Expenses	\$ 4,797,385
Capital Improvements	9,368,600
Debt Service	<u>826,812</u>
 Total Revenue Requirements	 14,992,797
Less: Replacement Taxes	(33,000)
Sewer Charges	(6,822,650)
Interest	(10,377)
Loan Proceeds	<u>(7,032,300)</u>
 Budgeted Deficit	 <u><u>\$ 1,094,470</u></u>

The deficit is explainable since much of it is due to construction and capital projects. The District plans to spend available funds received through the ARRA for major plant improvements.

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Summary Financial Statements

The Tables below present a financial summary for the District for fiscal years 2008 through 2011:

Summary Statement of Net Assets

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Current & Other Assets	7,303,000	8,293,000	8,528,000	8,125,000
Capital Assets	31,142,000	25,109,000	20,441,000	20,797,000
Total Assets	38,445,000	33,402,000	28,969,000	28,922,000
Long Term Debt Outstanding	16,599,000	8,566,000	6,455,000	6,987,000
Other Liabilities	2,985,000	3,526,000	1,025,000	1,368,000
Total Liabilities	19,584,000	12,092,000	7,480,000	8,355,000
Invested in capital assets, net of related debt	13,967,000	15,989,000	15,250,000	13,294,000
Unrestricted	4,894,000	5,321,000	6,239,000	7,273,000
Total Net Assets	18,861,000	21,310,000	21,489,000	20,567,000

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Summary Statement of Activities

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Operating Revenues	6,117,000	5,939,000	5,887,000	5,340,000
Nonoperating Revenues	20,000	17,000	92,000	311,000
Total Revenues	6,137,000	5,956,000	5,979,000	5,651,000
Operating Expense	5,976,000	5,879,000	4,787,000	5,134,000
Non Operating Expense	265,000	256,000	270,000	288,000
Total Expenses	6,241,000	6,135,000	5,057,000	5,422,000
Capital Contributions	-	-	-	29,000
Changes in Net Assets	(104,000)	(179,000)	922,000	258,000
Net Assets, Beginning of Year	18,965,000	21,489,000	20,567,000	20,309,000
Prior Period Adjustments	-	(2,345,000)*	-	-
Net Assets, Ending of Year	18,861,000	18,965,000	21,489,000	20,567,000

Sources:

1. Wheaton Sanitary District Financial Audit FY 2009
2. Wheaton Sanitary District Financial Audit FY 2010
3. Wheaton Sanitary District Financial Audit FY 2011

*Note: The adjustment reflects the changes necessary to restate the previously reported amounts to agree with an updated independent fixed asset appraisal.

Organizational Efficiency

Organizational efficiency matters were discussed in a focus group session with Sanitary Districts that was held on November 29, 2011 and in subsequent follow-up meetings with the district. References to these sessions are included within the comments below.

- Four different types of jurisdictions are involved in the provision and production of sanitary wastewater services in DuPage County - municipalities, sanitary districts (as authorized by Illinois Act of 1917), collection-only sanitary districts, and the county government.⁹
- Sanitary wastewater services divide into collection and treatment. The two related services are often, but not always, provided or produced by separate agencies.¹⁰ Wheaton Sanitary

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District owns and controls part of its collection system and provides treatment. The District owns most of the sewers in south Carol Stream, unincorporated areas, and interceptors throughout, but it does not own the local sewers in the City of Wheaton. Because it does not control and maintain the entire collection system, the District is somewhat vulnerable to changes in the volume of influent which can affect cost of treatment.¹¹

- The District maintains a facility plan that assists in scheduling upcoming capital improvements. The 2007 facility plan was approved by IEPA in 2009, and the District is considering an update which would reflect new cost effective approaches now available based upon new technology.¹²
- The District has some major capital improvements that need to be made, such as the replacement of a corrugated metal pipe interceptor. They estimate that the planning, design, and construction for the interceptor may require up to 10 years for completion.¹³
- In order to assess the condition of their infrastructure, the District televises their sewer lines every 5 years.¹⁴

Duplication of Effort/Service

- The District proposed a joint billing program with the City of Wheaton with an estimated annual savings of \$100,000 for the District and \$100,000 additional revenue for the City, but the City has not yet been able to commit resources to implement the program.¹⁵
- There may be some potential gains in efficiencies by sharing services that are used across the Districts, such as permitting, IT, HR, health insurance, joint procurement or purchasing agreements.¹⁶

Procurement Methodology

- Wheaton Sanitary District did not provide a copy of their procurement policy. Instead, they indicated that the District follows the procurement rules in Section 11 of the Sanitary District Act of 1917 (70 ILCS 2405/11) and the Illinois Procurement Code (30 ILCS 500).

Internal Controls

Ethics

The District does maintain an ethics policy; however, upon comparison with the County's Ethics Policy, we found that the District's policy did not address the following items:

- Political Contribution Limit
- Ethics training requirement
- Complaint filing procedure and whistleblower protection
- Contractor disclosure
- Board disclosure
- Conflict of interest
- Future employment
- Former employment relationships

Credit Cards

- The Wheaton Sanitary District has four credit cards (Visa Debit, Menards Credit, Sears Credit, BP Gas Card) and has a credit card policy in place.

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Other

The District's personnel roster, salary information and personnel policy was submitted to the County in accordance with Ordinance OCB-001-11.

Transparency and Accountability

- Wheaton Sanitary District has a website (<http://www.wsd.dst.il.us/>) where they post information about the District, including their board meeting schedule, meeting agendas and minutes, public notices, billing and other consumer information.¹⁷

Regulation

- Sanitary Districts are heavily regulated by the Federal and State government, in things such as rate structure and plant effluent.¹⁸ The significant issues facing Sanitary Districts today are pending regulations from the US Environmental Protection Agency (EPA) on biological nutrient removal (phosphorus and nitrogen), peak wet weather treatment (blending), and ammonia. These regulations could mandate substantial capital improvement costs. National Pollutant Discharge Elimination System (NPDES) permits from IEPA are already starting to reflect a shift in EPA's mindset on these matters.¹⁹
- The District has made some improvements that would better prepare the District if new regulations are implemented; however, the District estimates that it will need to do an additional \$1-1.5 million in improvements if regulations regarding phosphorous are passed.²⁰
- Wheaton Sanitary District is a member of the Illinois Association of Waste Water Agencies (IAWA) which provides educational, legislative, and legal services to its members.²¹ The Districts noted there is a need for unified and collaborative advocacy from all DuPage County wastewater agencies.²²

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Implement a joint billing program with the City of Wheaton

- Preliminary District estimates indicate an estimated \$100,000 annual savings for District and \$100,000 in additional revenue for City of Wheaton if a joint billing program is established.²³ These figures should be confirmed, along with associated costs, to determine if expediting the implementation of this program is appropriate.

Share services or participate in joint purchasing with another district, municipality or the County

- Several specific areas for shared services or joint purchasing that should be explored include: IT, HR, health insurance, joint purchasing of chemicals, centralized laboratory services and bidding of underground construction.

Increase Transparency and Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between Wheaton Sanitary District and DuPage County to improve communications, share information and best practices, etc.

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Assessment of Boards and Commissions

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Ethics

In order to more fully align its policy with the ethics policy standard of the County, we recommend that the Wheaton Sanitary District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Complaint filing procedure and whistleblower protection
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest - We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Credit Cards

The District has formal credit card procedures in place. We recommend that the District enhance its policy by adding the following information:

- Names of positions authorized to use credit cards, not just the positions from whom the cards may be obtained. Credit cards should only be used by employees with a reasonable need for use.
- Board members are not considered employees with a reasonable need for use of credit cards.

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Assessment of Boards and Commissions

Conclusion

The Wheaton Sanitary District has maintained a stable operation and has employed best practices to manage its operations and capital programs. Current practices in place are indicators that a sustainable operational model is in place for fiscal operations at the District. The District has taken steps to seek an opportunity to share services related to utility billing with the City of Wheaton to achieve annual savings of \$100,000 to the District.

The recommendations that we offered specifically for the District include aligning its ethics policy with DuPage County's ethics policy. Such alignment will help provide greater accountability and transparency to the District's customers and to the County Chairman and Board. We have also recommended the enhancement of the District's current credit card policy.

We further recommend that the District collaborate with the County, municipalities and other Sanitary Districts to explore opportunities for cost savings through shared services, joint purchasing and other means to gain efficiency.

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Assessment of Boards and Commissions

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- ¹ "Home Page" Wheaton Sanitary District Website. Accessed Jan. 10, 2012. <http://www.wsd.dst.il.us/>
- ² "Smaller Taxing District 1-30-2012" Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.
- ³ "WSD Personnel Roster as of 09-01-11" Wheaton Sanitary District. September 1, 2011. Pg.1
- ⁴ "Illinois Compiled Statutes: Special Districts (70 ILCS 2405/) Sanitary District Act of 1917." Illinois General Assembly Website. Accessed January 10, 2012. <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=967&ChapterID=15>
- ⁵ "Resolution R-1-12 Establishing the Next Twelve Board Meeting Dates" Wheaton Sanitary District. May 11, 2011. Pg. 1.
- ⁶ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ⁷ "Home Page" Wheaton Sanitary District Website. Accessed Jan. 10, 2012. <http://www.wsd.dst.il.us/>
- ⁸ "Ordinance No. 533 Budget and Appropriation Ordinance of the Board of Trustees of the Wheaton Sanitary District for the Fiscal Year Beginning May 1, 2011 and Ending April 30, 2012" Wheaton Sanitary District. April 13, 2011. Pg.8.
- ⁹ "Inside DuPage County Structure and Performance" DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.
- ¹⁰ "Inside DuPage County Structure and Performance" DuPage Intergovernmental Task Force. Sept. 1992. Pg. 22.
- ¹¹ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹² "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹³ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹⁴ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹⁵ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹⁶ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹⁷ "Home Page" Wheaton Sanitary District Website. Accessed Jan. 10, 2012. <http://www.wsd.dst.il.us/>
- ¹⁸ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ¹⁹ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ²⁰ Conference Call with Steve Maney. April 3, 2012.
- ²¹ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ²² "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.
- ²³ "Interview Notes" Focus Group with Sanitary Districts. November 29, 2011.

DuPage Sheriff's Merit Commission

Background

The Sheriff's Merit Commission has jurisdiction over all full-time deputy sheriffs and other positions as provided by the County Board. The Commission's responsibilities include reviewing applications for positions under its jurisdiction, certifying applicants as qualified, and setting forth the minimum requirements for applicants to be considered for a position. The Commission's review of applicants includes examinations, investigations, or any other methods consistent with recognized merit principles. The Commission also provides certifications for promotion to current employees under its jurisdiction. ¹

The Merit Commission has no full-time employees, but does have a part-time assistant with an annual salary of \$14,560. ²

Note: Sheriff Merit Commission Trustees chose not to meet with Crowe during the information gathering phase of the project. They did, however, review the interview notes from the meeting with the Administrative Assistant and supplied materials for review.

Enabling Statute

55 ILCS 5/3-8 County Code-Sheriff's Merit System: The Sheriff's Merit Commission enabling statute provides for the formation of a Merit Commission by way of petition and vote. The statute also lays out the duties of the Commission as follows: ³

- Certification of applicants
- Certification of promotions
- Disciplinary measures

Board Composition

The Merit Commission consists of three trustees (no more than two of whom may be affiliated with the same political party) that serve six-year terms. ⁴ Trustees are compensated \$4,800 per year. ⁵ Per provided Board materials, monthly Board meetings are scheduled for the first Thursday of each month with special call meetings the third Thursday. ⁶

Financial Summary

The Merit Commission is a component unit of DuPage County; therefore, financial information is reported in the County's budget and Comprehensive Annual Financial Report and the Commission receives funding from the County General Fund. Minimal additional revenue is received from entrance exam fees and is deposited in the County's General Fund. ⁷

Observations

The following observations are derived from interviews with the Sheriff Merit Commission's Administrative Assistant, review of documents provided by the Commission, and best practice research.

Financial Analysis

- There is no stand-alone audit conducted of the Merit Commission and the Commission has no stand-alone financial statements. The Commission is included in the County's audited Annual Financial Report. ⁸
- The FY 2012 Budget for the Sheriff's Merit Commission is \$85,890 which is a 22% increase from FY 2011 budgeted levels. The budget is comprised of personnel, commodities and contractual services. For FY 2012, 42% of the costs are being budgeted for personnel and 57% is budgeted for contractual services.

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- The following table shows the comparative financial information for the Sheriff's Merit Commission as obtained from the County's FY 2012 Budget.

	FY2009 Expenditures	FY2010 Expenditures	FY2011 Current Budget	FY2011 Estimated Expenditures	FY2012 Approved Budget
Personnel	\$28,290	\$18,675	\$18,560	\$14,400	\$36,400
Commodities	\$850	\$520	\$850	\$544	\$850
Contractual Services	\$52,251	\$48,931	\$50,990	\$35,296	\$48,640
Total	\$81,391	\$68,125	\$70,400	\$50,240	\$85,890

Source: DuPage County FY 2012 Budget

- The FY2012 request of \$85,900 was primarily due to the increase for a part-time position of \$22,000, but also some increase in professional services for background checks and testing.⁹

Organizational Efficiency

- In the past, the DuPage County Human Resources Department provided a part-time assistant to the Commission. Currently, the Commission retains a part-time assistant that also supports County Human Resources.¹⁰ The Commission has no other employees.

Duplication of Effort/Service

- The Commission is charged with reviewing applications, certifying applicants as qualified, and establishing minimum requirements for job postings under the Commission's jurisdiction.¹¹ As many of these functions are also provided by DuPage County Human Resources, there may be efficiencies achieved under a shared services model.

Procurement Methodology

- The Merit Commission follows the County's procurement policy.¹²

Internal Controls

- The Merit Commission stated they follow the County's ethics policy.¹³ The "Rules, Regulations, Procedures" document that was submitted, by the Merit Commission, to the County also contains ethics guidelines.¹⁴ During the review of policies, the guidelines found in the "Rules, Regulations, Procedures" document were compared with the County's policy. The following areas are items that were not in the Rules, Regulations, and Procedures document, but are in the County's policy:
 - Political Contribution Limit
 - Ethics training requirement
 - Complaint filing procedure and whistleblower protection
 - Board disclosure
 - Conflict of interest
 - Future employment
- No one within the Merit Commission has use of a credit card.

Transparency and Accountability

- The Sheriff's Merit Commission utilizes the County website to post meeting agendas and meeting minutes. There are no policies or other information posted.

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Assessment of Boards and Commissions

- The Commission has a County parent committee that acts as a liaison to the County. Any need for additional funds is presented to the parent committee before it is taken to the County Board.

Other

- The Merit Commission's organizational chart and salary information was submitted to the County in accordance with Ordinance OCB-001-11.
- The Commission follows the County's personnel policy.

Operational Recommendations

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Increase Transparency & Accountability

- Enhance regular communication to the public and the County Board Chairman's Office.

While the Commission currently utilizes the County website to post meeting agendas and minutes, other documentation such as policies and a full meeting schedule was not available. Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed commission members as well as any employees on staff.

Implement Internal Controls Policies

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Sheriff's Merit Commission **add** the following information:

- Political Contribution Limit – We recommend that trustees if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Complaint filing procedure and whistleblower protection
- Board disclosure - We recommend that all trustees disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Conflict of interest - We recommend that the Commission add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the Commission interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the Commission

Adopting these policies will ensure that the Commission has the proper internal controls in place and establishes a formal standard of conduct.

Structural Recommendations

The following are recommendations that apply to the long-term sustainability of the organization and may require structural change.

Consider intergovernmental agreement with County HR

- Move human resources activities to the County's Human Resources Department.
- Leverage the County's Human Resource Department to determine best practices on hiring process and list maintenance.

Many of the functions that are performed by the Commission are very similar to the functions performed by DuPage County Human Resources. While no cost savings would be found in personnel costs, the Commission may find efficiencies by leveraging the County's experience in hiring, list maintenance, testing, and other human resource functions.

Conclusion

The Sheriff's Merit Commission plays an important, independent role in the hiring, advancement and discipline of Sheriff Personnel. While the independent decision making of the Commission is critical, there is an overlap on the Human Resource activities performed by both the Commission and the County. This overlap includes the processing of job applications, the certifying of applicants as qualified, and the establishing of minimum requirements for job postings. As such, there is an opportunity for better coordination between the two Human Resources functions. While there would be no cost savings in this process, increased coordination and leverage of the County's Human Resource department will lead to a higher level of consistency and allow both entities to determine and follow best practices in the hiring process. This coordination, combined with improvements in transparency and accountability such as the public posting of full meeting schedules and additions to the Commission's ethics policies, will help the Commission perform its important role more efficiently.

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Assessment of Boards and Commissions

¹ “Sheriff’s Merit Commission” DuPage County. 1/10/2011

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31587/

² “Organizational Chart” Merit Commission. Pg. 1

³ “County Code (55 ILCS 5/3-8) Sheriff’s Merit System” Illinois General Assembly Website. Accessed January 4, 2012. <http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=005500050HDiv%2E+3-8&ActID=750&ChapterID=12&SeqStart=34200000&SeqEnd=36100000>

⁴ “Sheriff’s Merit Commission” DuPage County. 1/10/2011

http://www.dupageco.org/CountyBoard/Appointive_Bodies/31587/

⁵ “Merit Commission Stipend” Merit Commission. 2010. Pg. 2

⁶ “Merit Commission Meeting Dates 2011” Sheriff’s Merit Commission. Pg. 1

⁷ “Merit Commission Budget FY2012” DuPage County Sheriff’s Merit Commission. 2011. Pg. 3

⁸ “Finance Note” DuPage County Finance Department. 2011. Pg. 1

⁹ “Email from Fred Backfield” Fred Backfield-DuPage County Finance Department. April 11, 2012.

¹⁰ “Interview Notes” Interview with Brandi Charlie-Lee & Patti Webber. December 2, 2011. Pg. 1

¹¹ “Sheriff’s Merit Commission” DuPage County. 2011.

<http://www.co.dupage.il.us/Content.aspx?id=31587&terms=sheriffs%20commission>

¹² “MC OCB-001-11” Sheriff’s Merit Commission. 2011 Pg. 1

¹³ “MC OCB-001-11” Sheriff’s Merit Commission. 2011 Pg. 1

¹⁴ “Rules, Regulations and Procedures” Sheriff’s Merit Commission. September 9, 2010 Pg. 4

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DuPage Water Commission

Background

The DuPage Water Commission was created to finance, construct, acquire, and deliver Lake Michigan water to DuPage County. The Commission serves municipalities in the territory of the Commission (primarily DuPage County, Illinois) and DuPage County. In 1986, the Commission entered into "wholesale" Water Purchase Agreements with 23 DuPage County municipalities and began construction on the water supply system. The Commission went into full operation on May 1, 1992.¹ DuPage County joined the Water Commission in May 2006 and several other municipalities have also joined, all as subsequent customers. The DuPage Water Commission has approximately 35 full-time employees.²

Enabling Statute

70 ILCS 3720 Water Commission Act of 1985: In order to assure a sufficient and economic supply of a source of water, the act allows for the creation of water commissions and establishes the rules and powers of such commissions.³

Board Composition

The board consists of 12 commissioners and a chairman. The DuPage County Chairman appoints the Water Commission chairman and 6 commissioners, who represent each of the 6 County Board districts in the County. The 6 additional commissioners are elected by the mayors/presidents of municipalities within DuPage County, one representing each County Board district. The commissioners that do not hold elected office are compensated \$600 per year. Those that hold elected office of another government body are not compensated. Each of the commissioners serves six-year terms.⁴ Per provided Board materials, board meetings are scheduled for once per month at 7:30 p.m. on the third Thursday of the month at the Commission Offices at 600 East Butterfield Road, Elmhurst, IL 60126.⁵

Financial Summary

- The Commission obtains revenue from two primary sources, water sales and sales tax revenues. The Commission also receives some revenue from investment income. The Commission has the ability to raise cash through its authority to issue general obligation and revenue bonds. The Commission's primary expenditures are for water distribution, operations and maintenance, debt service, and capital improvements.⁶ The DuPage Water Commission does not levy a property tax.
- In response to both the City of Chicago water rate increases and financial demands due to the depletion of cash reserves, the Commission passed new water rates that went into effect January 2012. The water rates per 1000 gallons are as follows:
 - \$2.99 (effective Jan 2012)
 - \$3.59 (effective Jan 2013)
 - \$4.24 (effective Jan 2014)
 - \$4.96 (effective Jan 2015)
- The DuPage Water Commission Sales Tax of 0.25% is imposed on sales of general merchandise within the boundaries serviced by the DuPage Water Commission.⁷ This area excludes the City of West Chicago⁸ due to Public Act 95-0114 enacted by General Assembly in 2007.

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Assessment of Boards and Commissions

- The passage of Public Act 96-1389, which was adopted by the General Assembly in 2010, states that beginning June 1, 2016, any tax imposed pursuant to this Section may no longer be imposed or collected, unless a continuation of the tax is approved by the voters at a referendum as set forth in this Section.⁹ This means that the Water Commission will no longer be able to collect the 0.25% sales tax as of June 1, 2016.
- The Commission's FY2011-2012 Budget and Appropriation Ordinance budgeted for \$152,550,042 in expenditures.¹⁰

Observations

The following observations are derived from interviews with the DuPage Water Commission, review of documents provided by the Commission, and best practice research.

Financial Analysis

The Water Commission has taken measures to improve its financial condition after significant matters were noted and an investigation was conducted by a special counsel. The Water Commission has addressed all of the recommendations noted in the special counsel's report and has implemented or has plans to implement the recommendations. In addition, the Water Commission has addressed provisions of Public Act 096-1389 which imposed new financial requirements.

The Water Commission has also conducted a rate analysis that addresses rate increases from the City of Chicago for the purchase of water, factors in the elimination of sales taxes, and the future debt certificate retirements. The rate analysis was prepared in a transparent manner through public meetings and meetings with the customers of the Water Commission. The rate analysis provides a sustainable financial model for the Water Commission to follow to operate as a public utility providing water to its customers.

While improvements have been made to address financial concerns previously reported a discussion of past issues is important to understand the financial condition of the Water Commission. In November of 2009, Jenner & Block LLP was retained as special counsel by the DuPage Water Commission to investigate allegations of accounting irregularities and the exhaustion of the Commission's unrestricted reserves. The investigation report indicated the following activities occurred between 2007 and 2009:¹¹

- The Commission's unrestricted cash was exhausted as a result of the Commission's April 2007 approval of a \$40 million rebate to its charter customers, its simultaneous \$0.20 water rate reduction, a pre-existing imbalance between water revenues and expenditures, expenditures on new construction projects, and a decline in other revenues.
- The Commission made the decision to pay the rebate and reduce the water rate based on written reports from Staff that overstated the amount of unrestricted cash available.

In response to these findings, legislation was adopted in Springfield during the 2010 legislative session (SB 580, Public Act 96-1389) that imposed a number of new financial requirements on the commission, terminated terms of all sitting commissioners and the chairperson as of January 1, 2011, and authorized the DuPage County Board Chairman to appoint a new Chairman of the Commission. The Commission also hired a new General Manager in March of 2011 and retained Baker Tilly, an accounting and advisory firm, to act as an interim financial administrator and assist in remedying prior accounting errors and implementing internal controls.¹²

Recently the Water Commission has been restructured to address significant issues related to financial practices. Some of the specific items previously noted, follow:

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Assessment of Boards and Commissions

- Industry best practices found in GFOA guidance encourage that working capital for enterprise funds baseline start at a level sufficient to fund 90 days of operations. However, based on best practices, inadequate working capital existed at FY10 year-end.¹³
- The Commission's cash flow summaries indicated significant cash outlays for capital and related financing activities. Although bond and note payment requirements have been met, it is unclear which revenue source or assets (new taxes or unrestricted assets/cash) were being used to meet the requirements, hence bringing the cash position into question. Further, the auditors and management's analysis noted that bond covenants were not met annually.
- External auditors have, over the past several fiscal years, reported a series of control deficiencies. Although a number of items noted do not independently raise question as to financial stability, errors regarding accurate recording of significant liabilities (accounts payable), failure to record cleared costs within the appropriate period following the year-end reconciliation to the bank statement, and errors regarding the recording of capital assets the combined control matters raised concerns.

In early 2011, new management of the Commission prepared a cash flow analysis ("Model") for the next eight years. This Model includes adjustments for the four year ninety percent (90%) rate increase from the City of Chicago for the Purchased Water expense. This Model allows for increases in operation and maintenance expenses, funding capital improvements, and the take out of the Debt Certificates that had been issued in 2009 and 2010 to cover operations and ongoing construction projects. Another item this Model considers is the elimination of the receipt of Sales Tax revenue. The results of the Model were a ten percent (10%) rate increase in May of 2011, a thirty percent (30%) increase in January 2012, a twenty percent (20%) increase in January 2013, an eighteen percent (18%) rate increase in January 2014, and a seventeen percent (17%) increase in January 2015. These increases only affected the Operation and Maintenance rates. The Fixed Cost rate increases by one cent (\$0.01) in January 2013 and again in January 2015. The Model assumes that the Fixed Cost rate is eliminated in January 2016 with the payoff of the Debt Certificates and that the Operation and Maintenance rate is increased by the same corresponding rate amount.¹⁴

The Model was shown to customers of the DuPage Water Commission with a presentation to explain the reasons for the rate increase. The customers of the Water Commission are units of local government and require significant lead-time to consider the effects of the rate increase upon their own cost structures and budgets. The rate increases were passed by the Commission in November 2011.¹⁵

Management followed good practices in the development of the Model and the presentation of it to the customer communities. The Model provides the Water Commission with a sustainable financial plan as a public water utility to guide it in future budget and financial matters.

The Commission operates on a fiscal year of May 1, through April 30. Therefore, many of the financial initiatives that the Commission has implemented have not yet been presented in audited financial statements. The following tables present the summarized financial information of the Commission for the past four fiscal years, based on the audited financial statements.

DuPage County
Assessment of Boards and Commissions

Summary Statement of Net Assets

	<u>Apr. 30, 2011</u>	<u>Apr. 30, 2010</u>	<u>Apr. 30, 2009</u>	<u>Apr. 30, 2008</u>
Current Assets				
Unrestricted Cash & Investments	26,837,754	14,716,163	2,187,306	19,004,762
Restricted Cash & Investments	43,167,288	39,331,143	66,455,606	62,086,170
Receivables	14,851,840	11,554,268	11,730,634	13,380,889
Other Assets	5,530,589	10,298,759	928,348	627,284
Non-current Assets				
Other Assets	266,137	226,798	330,038	-
Long Term Loan Receivable	5,000,569	5,637,192	5,637,192	5,637,191
Land and Construction in Progress	41,200,486	38,126,603	19,338,232	14,966,815
Capital Assets, net of depreciation	338,473,794	344,641,100	350,095,316	356,918,849
Total Assets	475,328,457	464,532,026	456,702,672	472,621,960
Current Liabilities				
Payables & Accrued Liabilities	7,714,603	15,655,813	8,318,519	4,317,116
Customer Deposits	648,884	697,162	1,457,785	-
Notes Payable	70,000,000	30,000,000	-	-
Bonds Payable	10,565,000	22,460,026	21,425,000	20,090,393
Accrued Interest	2,130,242	2,358,877	2,567,431	2,893,994
Unearned Revenue	139,874	138,637	140,607	140,992
Non-current Liabilities				
Unearned Revenue	1,664,791	1,805,902	1,943,383	2,083,606
Other Liabilities	46,766	44,637	47,747	38,438
Bonds Payable	59,402,918	69,413,439	91,459,790	112,555,514
Total Liabilities	152,313,078	142,574,493	127,360,262	142,120,053
Net Assets				
Invested in capital assets, net of related debt	297,141,079	285,357,700	256,548,758	239,239,756
Restricted	34,115,788	26,597,792	44,433,387	41,668,865
Unrestricted	(8,241,488)	10,002,041	28,360,265	49,593,286
Net Assets	323,015,379	321,957,533	329,342,410	330,501,907

Summary Statement of Activities

	<u>Apr. 30, 2011</u>	<u>Apr. 30, 2010</u>	<u>Apr. 30, 2009</u>	<u>Apr. 30, 2008</u>
Revenues				
Operating:				
Water sales-all categories	59,785,622	49,455,186	41,480,689	40,367,479
Other	16,453	65,682	2,473	72,697
Non-operating:				

DuPage County
Assessment of Boards and Commissions

Sales Tax	30,780,825	29,046,664	31,118,492	34,308,874
Investment Income	253,179	360,738	1,424,148	3,958,431
Gain on the sale of capital assets	-	-	-	46,624
Total Revenue	90,836,079	78,928,270	74,025,802	78,754,105
Expenses				
Operating:				
Water supply costs	63,717,280	57,594,500	53,813,786	50,234,652
Depreciation	6,878,751	6,880,364	6,871,760	7,786,017
Personnel Services	3,373,895	3,880,010	3,792,037	3,803,665
All other expenses	1,784,792	2,908,826	2,210,235	1,886,996
Non-operating:				
Bond Interest	6,755,941	6,054,573	6,761,745	7,514,478
Intergovernmental Expense-City of Chicago	7,199,344	9,482,833	1,735,736	-
Loss from loan to charter customer	425,000	-	-	-
Total Expense	90,135,003	86,801,106	75,185,299	71,225,808
Income before non-operating items	701,076	(7,872,836)	(1,159,497)	7,528,297
Contributions	356,770	487,959	-	-
Special Item-Customer rebate	-	-	-	(40,000,000)
Changes in net assets	1,057,846	(7,384,877)	(1,159,497)	(32,471,703)
Net Assets, May 1	321,957,533	329,342,410	330,501,907	362,973,610
Net Assets, April 30	323,015,379	321,957,533	329,342,410	330,501,907

Source: DuPage Water Commission Management Information and Annual Financial Statements.

DuPage County
Assessment of Boards and Commissions

Organizational Efficiency

- Since the new General Manager joined the organization in March of 2011, he has focused on gaining efficiencies and reducing the budget through:¹⁶
 - Renegotiation of contracts
 - Debt certificate renegotiation has resulted in an estimated savings of \$1 million per year
 - Renegotiated electrical supply contract has resulted in an estimated savings of \$500,000 over the next two years
 - Cell phone provider contract has been renegotiated reducing the cost from approximately \$1700 per month to \$1100 per month
 - Elimination of “built-in overtime”
 - Elimination of automatic raises (or automatic by practice)
 - Rigorous procurement and bidding processes
 - Implementation of benchmarking, performance metrics, lean transformation, six sigma, etc.
 - GPS for vehicles

Duplication of Effort/Service

- The services provided by the Water Commission are specifically outlined in the Water Commission Act of 1985. Another organization providing similar services to the same geography does not exist.
- The Commission has looked at the possibility of sharing services with other utilities; however, so far they have found this difficult as the Commission has a larger system and more specialized work.¹⁷

Procurement Methodology

The Commission does maintain a procurement policy which is included within their by-laws. We compared the Commission’s by-laws to the County’s Procurement Policy, and we found that the Commission’s by-laws did not formalize the following items contained in the County’s Procurement Policy:

- Insurance requirements for contractors
- Record retention for contractors
- Authorization for the use of electronic transmissions
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Public access to procurement information
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Guidance for review of the procurement policy

It also had information that was inconsistent with the County’s policy on the following item:

- Bid Security / Bonding Requirements – The current policy for performance bonds does not include a limit.

DuPage County
Assessment of Boards and Commissions

Internal Controls

Ethics

The Commission does maintain an ethics policy; however, we found that the policy was missing information regarding the following items, when comparing the policy to the County's Ethics Policy:

- Political Contribution Limit
- Ethics training requirement
- Contractor disclosure of political contributions
- Board disclosure of political contributions
- Future employment
- Former employment relationships

Credit Cards

The Water Commission currently has three credit cards issued to designated employees and is working to formally update its policy with regard to credit card use.

Other

The independent investigation conducted by Jenner and Block LLP provided a list of recommendations for improving internal controls. During interviews with the Water Commission management and Commission consultant, a determination of the status of recommendations that have been implemented, are in progress, or have not been implemented was prepared, as follows:

Implemented:

- Define the responsibilities of the Board and its Committees, as well as the responsibilities of management
- Supervise Staff's handling of financial matters and budgeting
- Recruit professionals with finance experience to serve on the Board and its Finance Committee
- Document and comply with accounting policies, procedures, and controls in accounting. Report any deviation from the procedures and controls to the Finance Committee.
- Report the monthly financial information to the Board
- Perform Bank reconciliations and General Ledger account reconciliations on a monthly basis
- Establish proper segregation of duties
- Restrict access to the InCode accounting system and General Ledger system and provide adequate separation of duties
- Request an independent person (someone not on the Staff) to review any annual changes in the InCode Payroll module, such as pay rates and deductions
- Review and approve all manual journal entries and supporting documentation
- Implement adequate monitoring control to compensate for areas lacking in segregation of duties

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Assessment of Boards and Commissions

- Review the Construction in Progress worksheet to monitor the progress of construction projects to ensure timely reclassification to the appropriate asset categories for depreciation purposes
- Hold regular meetings of the Finance Committee that are not time-limited by the necessity to begin the full Board meeting
- Indicate in a log when review of reports have been completed
 - While not maintaining a separate log, sign-off does occur on each packet

In Progress / Partially Implemented:

- Establish the position of Treasurer as a paid, non-staff position, responsible directly to the Board to perform the treasury functions outlined in the By-laws and watchdog functions. The Treasurer will also be responsible for reporting any improper expenditures, budgetary errors, or accounting irregularities to the Board.
 - Updates to the Commission's by-laws were submitted to its Administration Committee on February 16, 2012. The updates include the establishment of functions for both the Treasurer and Financial Administrator.¹⁸ It is expected that the Board will review the updates and vote on the new by-laws within the next few months.¹⁹

Not Implemented:

- Make better use of InCode subsidiary ledgers to reduce the number of manual journal entries
 - The Commission plans on waiting until they have hired a full-time Financial Administrator to procure a new system for their fixed asset ledger

Transparency and Accountability

- The DuPage Water Commission has a website (<http://www.dpwc.org/>) where a significant amount of information regarding the Commission is posted, including history, board information, meeting schedule, meeting agendas and minutes, policies, and recent news releases.²⁰
- During our analysis the DuPage Water Commission updated the navigation on its website to make certain items easier for users to find.²¹
- The General Manager noted that further improvements to the website are planned to make it easier for visitors to find information.²²

Operational Recommendations

We considered the progress made by the Water Commission Board and Management in the implementation of the requirements and recommendations of the Act and the Special Counsel's Report. We have previously commented on the progress made by the Water Commission related to implementation activities and we have seen evidence of significant changes to improve financial oversight and internal controls.

The following are specific recommendations that Crowe is making for the County and the Water Commission based on our review of the progress made through the time of our review.

DuPage County
Assessment of Boards and Commissions

Continue to monitor the cash flow and evaluate the financial results

- Crowe recommends that Commission management continue to monitor the cash flow and evaluate the financial results on a regular basis. Regular status reports to the Commission members and report of the annual audit will help provide proper evaluation.

Continue to rebuild the Commission and follow-best practice guidelines

- The Water Commission currently has new leadership in place that is addressing the past issues. Progress has been made in several areas that were previously noted. We recommend the Commission continue implementing the recommendations of Jenner and Block LLP and continue following best practice guidelines.

Increase Transparency and Accountability

- Provide regular information to the public and to the County Board Chairman's Office
- Continue with planned updates to the Water Commission website

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board and commission members as well as any employees on staff.

Implement Internal Controls Policies

Procurement

In order to more fully align its procurement policy with DuPage County, we recommend that the Water Commission **add** the following information:

- Insurance requirements for contractors
- Record retention for contractors (recommended 3 years from final payment)
- Authorization for the use of electronic transmissions
- Bid and/or request for proposal document addenda and questions
- Communication with bidders/offerors
- Public access to procurement information
- Provision for County auditor to audit contractor books and records when related to a contract
- Term limit and full disclosure of price for multi-year contracts
- Contract renewal procedure
- Guidance for review of the procurement policy (recommended every 5 years)

In order to more fully align its procurement policy with DuPage County, we recommend that the Water Commission consider a **change** to the following information:

- Bid Security / Bonding Requirements – The current policy for performance bonds does not include a limit. We recommend adding a limit not to exceed 10% of the amount of the bid.

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Water Commission **add** the following information:

- Political Contribution Limit – We recommend that Commissioners are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)

DuPage County

Assessment of Boards and Commissions

- Contractor disclosure – We recommend that all contractors who have obtained a contract with the Commission greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Board disclosure – We recommend that all commissioners disclose their financial interests and holdings in any business where they have an ownership interest of 7.5% or greater
- Future employment – We recommend that commissioners should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the Commission
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the Commission may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

Credit Cards

- The Commission is working to update its credit card policy. We recommend that the Commission update and formalize the policy limiting the use of credit cards.

Other

We recommend that the Commission continues to work toward fully implementing the internal controls recommended in the report by Jenner and Block LLP:

- Adopt the new By-Laws that have been submitted to the Administration Committee in order to establish the position of Treasurer as a paid, non-staff position, responsible directly to the Board to perform the treasury functions and watchdog functions. The Treasurer will also be responsible for reporting any improper expenditures, budgetary errors, or accounting irregularities to the Board.
- Make better use of InCode subsidiary ledgers to reduce the number of manual journal entries

Conclusion

The Water Commission has addressed most of the items previously reported and it will need to continue making progress toward full implementation of measures called for by the Public Act 96-1389 and the Special Counsel Report Recommendations. The recently appointed Water Commission Board and Management are in the process of implementing the requirements and recommendations to meet the compliance requirements of the Act and to improve operations in accordance with industry and governmental best practices.

Financial analysis of the rate structure for the Water Commission has been prepared to set future water rates for the customers, Water Commission Management followed good practices in the development of the analysis and the presentation of it to the customer communities. The financial analysis provides the Water Commission with a sustainable financial plan as a public water utility to guide it in future budget and financial matters.

The Management of the Water Commission has evaluated and is implementing efficiency measures to reduce costs and is implementing stronger internal control practices. In addition, the Water Commission has improved transparency by improving its website's content and improved accountability practices by posting more information on its website.

The requirements of the Act and the measures recommended by the Special Counsel's Report have been significant undertakings for the Water Commission. Such changes do not occur without significant effort and time to address the measures. Therefore, progress on all of the measures will not be immediate and will continue to require much diligence in the future.

DuPage County
Assessment of Boards and Commissions

¹ “History” DuPage Water Commission Website. Accessed Jan. 20, 2012.

<http://www.dpwc.org/AboutUs/History/tabid/100/Default.aspx>

² “DuPage Water Commission Management Information” DuPage Water Commission. 2011. Pg. 941

³ “Illinois Compiled Statutes: Special Districts (70 ILCS 3720/) Water Commission Act of 1985.” Illinois General Assembly Website. Accessed January 20, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=989&ChapterID=15>

⁴ “Illinois Compiled Statutes: Special Districts (70 ILCS 3720/) Water Commission Act of 1985.” Illinois General Assembly Website. Accessed January 20, 2012.

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=989&ChapterID=15>

⁵ “2012 Schedule of Meetings” Letter to Press from John F. Spatz. December 9, 2012. Pg. 2.

⁶ “Confidential Report of Independent Investigation of Certain Financial Issues of the DuPage Water Commission.” Jenner & Block, LLP. March 2, 2010. Pg. 17.

⁷ “DuPage County Water Commission Tax” Illinois Department of Revenue Website. Accessed January 24, 2012.

<http://tax.illinois.gov/Businesses/TaxInformation/Sales/dupage.htm>

⁸ “Illinois Public Act 095-0114” Illinois General Assembly Public Acts Website. 3/1/12 www.ilga.gov

⁹ “Illinois Public Act 096-0389” Illinois General Assembly Public Acts Website. 3/1/12 <http://www.ilga.gov>

¹⁰ “Annual Budget and Appropriation Ordinance for the Fiscal Year Commencing May 1, 2011 and Ending April 30, 2012. Ordinance #O-14-11.” DuPage Water Commission. July 14, 2011. Pg. 5.

¹¹ “Confidential Report of Independent Investigation of Certain Financial Issues of the DuPage Water Commission.” Jenner & Block, LLP. March 2, 2010. Pg. 15.

¹² “Interview Notes” Interview with John Spatz, Jr. and Jim Zay of DuPage Water Commission. December 2, 2011 Pg. 2.

¹³ “Appropriate Levels of Working Capital in Enterprise Funds (BUDGET & CAAFR) (2011)” Government Finance Officers Association. February 2011.

http://www.gfoa.org/index.php?option=com_content&task=view&id=1768

¹⁴ Meeting with John Spatz, Jr. of DuPage Water Commission. December 21, 2011.

¹⁵ Meeting with John Spatz, Jr. of DuPage Water Commission. December 21, 2011.

¹⁶ “Interview Notes” Interview with John Spatz, Jr. and Jim Zay of DuPage Water Commission. December 2, 2011 Pg. 3. And pursuant to follow up discussion on March 12, 2012.

¹⁷ “Interview Notes” Interview with John Spatz, Jr. and Jim Zay of DuPage Water Commission. December 2, 2011 Pg. 3.

¹⁸ “DuPage Water Commission Administration Committee Meeting Agenda for Feb. 16, 2012.” DuPage Water Commission Website. Accessed Mar 5, 2012.

<http://www.dpwc.org/Portals/0/docs/Admin/Materials/Administration%20Committee%202-16-2012.pdf>

¹⁹ “RE: Follow up Question from Crowe.” Email from John Spatz, Jr. Mar 5, 2012.

²⁰ “DuPage Water Commission” DuPage Water Commission Website. Accessed Jan. 20, 2012.

<http://www.dpwc.org/Home/tabid/36/Default.aspx>

²¹ “Voicemail from John Spatz, Jr.” Jan. 13, 2012.

²² “Interview Notes” Interview with John Spatz, Jr. and Jim Zay of DuPage Water Commission. December 2, 2011 Pg. 2.

West Chicago Mosquito Abatement District

Background

The West Chicago Mosquito Abatement District was established in the early 1950's.¹ Illinois contains 21 Mosquito Abatement Districts, five of which are within DuPage County and two of which are within the scope of this study. The District is also one of 45 districts, municipalities, or townships performing mosquito abatement in DuPage County. The District contracts with Clarke Environmental to perform surveillance activities, larvicide treatment, and adulticide treatment.²

The West Chicago Mosquito Abatement District serves incorporated West Chicago, Winfield and portions of Winfield Township;³ it consists of 16,471 parcels of property.⁴

Enabling Statute

70 ILCS 1005 Mosquito Abatement District Act: Allows for the formation of Mosquito Abatement Districts by way of petition then vote.⁵

Board Composition

The District is composed of five trustees (currently one vacant seat). Trustees serve four-year terms and are not compensated.⁶ Per provided Board materials, Board meetings are scheduled for the second Tuesday of each month with no meeting in February or November.⁷

Financial Summary

Audited West Chicago Financial Statements shows that revenues collected are from taxes, interest, and dividends. Property tax revenue for fiscal year ending 2011 totaled \$159,820.⁸ In 2010, the District issued a property tax levy of \$166,842.55 at a rate of .0111%.⁹

The District maintained a reserve restricted for public health emergencies of \$113,468 in FY2011.¹⁰ This reserve fund is intended to cover the potential future costs of another health issue similar to that of the West Nile outbreak several years ago. West Nile initially hit the DuPage area much sooner and harder than expected. Because of this, the District was forced in 2000 to exhaust its entire reserve fund.¹¹ To deal with this financial issue, the contractor allowed a floating bill and the District went to referendum.¹²

West Chicago Mosquito Abatement District's total budget for FY2011 was \$267,000.¹³

Observations

The following observations are derived from interviews with the District, review of documents provided by the District, and best practice research.

Financial Analysis

- It is difficult for the District to predict abatement costs because it is drastically affected by weather. For example, a wet season may require extra larvicide treatment above the original contract predictions. Because of this, the District maintains a reserve fund.¹⁴

There are several matters of note with the District's financial statements:

- The District has \$113,468 restricted net assets for public health emergencies in its April 30, 2011 audited financial statements. However, it is not clear as to what external party has restricted such net assets. Governmental accounting standards require restricted net assets can only be designated by outside parties such as State or federal governments. A note disclosure is usually customary to indicate such restrictions. Based on the FY 2011 financial statements, this restriction is a reservation of funds by the District's Board.

- The District's fund balance has approximately 199% of annual expenditures as of April 30, 2011. This is a strong financial position as best practices recommend about 60 days of expenditures in fund balance.
- The tables below present a financial summary for the West Chicago Mosquito Abatement District:

Summary Statement of Net Assets

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Assets				
Cash	4,364	22,587	28,447	74,987
Investments	128,585	93,468	60,892	
Property Tax Receivable	170,179	163,450	161,004	153,047
Total Assets	303,128	279,505	250,343	228,034
Deferred Revenue				
	-	-	161,004	153,047
Total Liabilities	-	-	161,004	153,047
Net Assets				
Restricted for public health/emergencies	113,468	93,468	70,000	60,000
Unrestricted	189,660	186,037	19,339	14,987
Total Net Assets	303,128	279,505	89,339	74,987

Summary Statement of Activities

	Apr. 30, 2011	Apr. 30, 2010	Apr. 30, 2009	Apr. 30, 2008
Revenues	176,003	168,846	160,028	155,241
Expenses	152,380	139,684	145,676	133,275
Change in Net Assets	23,623	29,162	14,352	21,966
Net Assets, Beginning	279,505	89,339	74,987	53,021
Net Assets, Ending	303,128	279,505	89,339	74,987

Sources:

1. Audited Financial Statements Year Ended 4-30-08
2. Audited Financial Statements Year Ended 4-30-09
3. Audited Financial Statements Year Ended 4-30-10
4. Audited Financial Statements Year Ended 4-30-11

Organizational Efficiency

- The District has had difficulty finding replacement volunteers to serve on the Board and usually requires recruitment from the Board. The District Board is currently short one member.¹⁵
- There are no employees of the West Chicago Mosquito Abatement District, but they do retain two contractors; an attorney and Clarke Environmental.¹⁶ The Clarke Environmental contract for abatement services was \$137,342.92.¹⁷

Duplication of Effort/Service

- 36 of the 45 Districts/Municipalities/Townships performing abatement services within DuPage County contract with Clarke Environmental.¹⁸
- The DuPage County Health Department's Environmental Health Division performs mosquito surveillance of West Nile mosquitos as it relates to public health. Clarke Environmental is also performing surveillance of mosquitos and reporting findings to the Illinois Department of Health.¹⁹

Procurement Methodology

- The West Chicago District does not have a procurement policy.
- The District has gone to bid in the past for mosquito abatement services, but few companies provide this service, and if they do, they are easily eliminated based on the chemicals used or program structure. Additionally, benefits of using a contractor rather than performing the services in-house include:²⁰

- Clarke carries insurance that is necessary and important due to the nature of the spraying (at night, via helicopter, etc.)
 - The Board carries officer insurance, but the contractor picks up the rest
- Testing for live viruses requires a laboratory and potentially exposes individuals to viruses
- National Pollutant Discharge (as well as any air quality legislation/restrictions) are automatically picked up by Clarke

Internal Controls

- The District has no governing By-Laws in place.
- West Chicago Mosquito Abatement District's ethics policy was submitted and is on file with the County in accordance with Ordinance OCB-001-11. Upon review, we found the following areas of inconsistency between the District and County's policy:
 - Political Contribution Limit
 - Ethics training requirement
 - Contractor disclosure
 - Conflict of interest
 - Future employment
 - Former employment relationships

Transparency and Accountability

- The West Chicago Mosquito Abatement District does not have a website or utilize the County's website to post meetings, meeting agendas, or meeting minutes.

Other

- The District has no employees and has no organizational chart, salary information, or personnel policy.

Operational Recommendation(s)

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Increase Transparency & Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the West Chicago Mosquito Abatement District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website.

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board members.

Implement Internal Controls Policies

Procurement

- The West Chicago Mosquito Abatement District does not have a Procurement Policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the West Chicago Mosquito Abatement District **add** the following information:

- Political Contribution Limit – We recommend that trustees are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Conflict of interest - We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District's interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

While the District does not frequently make major procurements, there may be a need for larger procurements related to abatement services and/or health emergencies. Adopting these policies will ensure that the District has the proper internal controls in place and establishes a formal standard of conduct.

Structural Recommendation(s)

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate a master contract for abatement services across all districts, municipalities, and townships

- Phase 1: Convene a group of representatives for all districts and municipalities performing mosquito abatement services as well as representation from the DuPage County Health Department.
- Phase 2: Negotiate a regional contract with Clarke Environmental for all abatement services provided within DuPage County.

A joint contract among the 45 districts performing abatement services provides a greater impact and addresses the greater need of the County. It creates an opportunity for greater cost-savings and efficiencies without any legislative or organization changes. Although no legislative changes would be necessary, discussions with abatement districts, municipalities, and townships performing abatement services would be necessary to ensure participation in the joint contract.

Consider dissolving the two districts and moving the function to the County Health Department

- Phase 1: Examine the potential benefits of shifting the abatement districts' powers and duties
- Phase 2: Absorb the two districts and shift their powers and duties to the County, continue to contract abatement services
- Phase 3: Based upon a future cost/benefit analysis, determine if the County should continue to contract for abatement services or bring services in house to the Public Works Department.

Any action taken regarding the enabling statute may also affect three other mosquito abatement districts that are not within the scope of this project or appointed by the Chairman of the County Board.

Consolidating the mosquito abatement districts by creating a county-wide district would eliminate five separate taxing districts and allow for better consolidation of services. The Environmental Health Division within the Health Department has expertise in this area that would be beneficial in determining the necessary services. Consolidating the districts can provide cost savings by eliminating administrative overhead. However, if the County takes on the powers and duties of the mosquito abatement districts, it will likely need to continue to levy in order to provide a similar level of mosquito abatement services.

It is important to note that this option would only address up to five of the 45 districts, municipalities, and townships performing mosquito abatement services. Greater efficiencies and cost-savings likely lie in joint coordination of services across all entities providing abatement services.

Conclusion

The West Chicago Mosquito Abatement District is one of 45 districts, municipalities, or townships performing mosquito abatement in DuPage County and one of 36 that contracts with a single service provider to perform mosquito abatement services. To resolve this duplication of service and facilitate cost savings, we recommend the County convene a group of Abatement representatives and investigate negotiating a regional contract with the service provider across all districts, municipalities and townships. We also recommend the County and two Districts within the scope of this study investigate and consider dissolving the districts and moving the function to the County Health Department.

Furthermore, we recommend that the District increase transparency and accountability through increased communication with the County Board and by posting meeting and other information on the County website. We also recommend the District implement or update procurement and ethics policies to bring them into alignment with the County's policies.

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- ¹ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 1
 - ² “MosqitoAbateDistAgencies72011Revised” DuPage County Health Department. 2011. Pg. 1
 - ³ “DuPage County Municipal Mosquito Control and Mosquito Abatement Districts” DuPage County Health Department. 2011. Pg. 1
 - ⁴ “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.
 - ⁵ “Illinois Compiled Statutes: Special Districts (70 ILCS 1005) Mosquito Abatement District Act.” Illinois General Assembly Website. Accessed January 4, 2012.
<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=890&ChapterID=15>
 - ⁶ “West Chicago Mosquito Abatement District” DuPage County Appointive Bodies Website. January 4, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31603/
 - ⁷ “Meeting Schedule” West Chicago Mosquito Abatement District. Pg. 1
 - ⁸ “Audited Financial Statements Year Ended 4-30-11” Mueller & Co. LLP. 2011 Pg. 11
 - ⁹ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk. Pg. 29
 - ¹⁰ “Audited Financial Statements Year Ended 4-30-11” Mueller & Co. LLP. 2011 Pg. 8
 - ¹¹ “Audited Financial Statements Year Ended 4-30-09” Mueller & Co. LLP. 2009 Pg. 7
 - ¹² “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 2
 - ¹³ “Budget 5-1-10 to 4-30-11” West Chicago Mosquito Abatement District. Pg. 1
 - ¹⁴ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 2
 - ¹⁵ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 1
 - ¹⁶ “Org Chart” West Chicago Mosquito Abatement District. Pg. 1
 - ¹⁷ “Contract - Clarke Environmental” Clarke Environmental & WC Mosquito District. 2011 Pg. 4
 - ¹⁸ “MosqitoAbateDistAgencies72011Revised” DuPage County Health Department. 2011. Pg. 1
 - ¹⁹ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 3
 - ²⁰ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 2-3

Wheaton Mosquito Abatement District

Background

The Wheaton Mosquito Abatement District was established in the early 1950's.¹ Illinois contains 21 Mosquito Abatement Districts, five of which are within DuPage County and two of which are within the scope of this study. The District is also one of 45 districts, municipalities, or townships performing mosquito abatement in DuPage County. The District contracts with Clarke Environmental to perform surveillance activities, larvicide treatment, and adulticide treatment.²

The Wheaton Mosquito Abatement District serves incorporated Wheaton bordering portions of Milton Township;³ it consists of 22,597 parcels of property.⁴

Enabling Statute

70 ILCS 1005 Mosquito Abatement District Act: Allows for the formation of Mosquito Abatement Districts by way of petition then vote.⁵

Board Composition

The District is composed of five trustees (currently one vacant seat). Trustees serve four-year terms and are not compensated.⁶ Per provided Board materials, Board meetings are scheduled for the first Monday of each month.⁷

Financial Summary

Audited Wheaton Mosquito Abatement District Financial Statements shows that revenues collected are from taxes and interest. Property tax revenue for fiscal year ending 2011 totaled \$450,747.⁸ In 2010, the District issued a property tax levy of \$466,819.99 at a rate of .0166%.⁹

Wheaton Mosquito Abatement District's budget is legally enacted by the passage of an ordinance by the Board of Trustees. The total budget for FY2011 was \$496,000¹⁰ and the total fund balance was \$159,874 (\$9,007 reserved and \$150,867 unreserved).¹¹

Observations

The following observations are derived from interviews with the District, review of documents provided by the District, and best practice research.

Financial Analysis

- It is difficult for the District to predict abatement costs because it is drastically affected by weather. For example, a wet season may require extra larvicide treatment above the original contract predictions. Because of this, the District maintains a high reserve fund.¹²

There are a few matters to note with the District's financial statements:

- The District's fund balance has approximately 120 days of annual expenditures as of March 31, 2011. This financial position exceeds best practices recommendations of 60 days of expenditures in fund balance.
- The tables below present a financial summary of the Wheaton Mosquito Abatement District:

Summary Statement of Net Assets

	Mar. 31, 2011	Mar. 31, 2010	Mar. 31, 2009	Mar. 31, 2008
Assets				
Cash & Investments	150,867	173,393	132,820	138,653
Property Tax Receivable, net of allowances for uncollectibles	466,820	451,449	445,353	427,177
Prepaid Expenses	9,007	9,032	8,940	9,181
Total Assets	626,694	633,874	587,113	575,011
Deferred Revenue				
	466,820	451,449	445,353	427,177
Total Liabilities	466,820	451,449	445,353	427,177
Net Assets				
Unrestricted	159,874	182,425	141,760	147,834
Total Net Assets	159,874	182,425	141,760	147,834

Summary Statement of Activities

	Mar. 31, 2011	Mar. 31, 2010	Mar. 31, 2009	Mar. 31, 2008
Revenues	455,931	448,780	433,993	421,225
Expenses	478,482	408,115	440,067	371,943
Change in Net Assets	(22,551)	40,665	(6,074)	49,282
Net Assets, Beginning	182,425	141,760	147,834	98,552
Net Assets, End	159,874	182,425	141,760	147,834

Sources:

1. wh mosq-audit 2008
2. wh mosq-audit 2009
3. wh mosq-audit 2010
4. wh mosq-audit 2011

Organizational Efficiency

- The District has had difficulty finding replacement volunteers to serve on the Board, and it usually requires recruitment from the Board. The District Board is currently short one member.¹³
- The District has no employees, but does retain three contractors; a consultant, an attorney, and Clarke Environmental. The Clarke Environmental contract for abatement services was \$369,725.55.¹⁴
- The consultant for the Wheaton Mosquito Abatement District brings experience from seasonal work with Clarke Environmental and as a former employee of the DuPage Health Department and does the following:
 - Verifies contracted work with Clarke is being done
 - Provides extra expertise to the board and helps them make decisions
 - Trains/Teaches new board members
 - Communicates with the DuPage Health Department
 - Searches for abandoned swimming pools in foreclosed homes and does testing
 - Checks catch basins
 - Manages correspondence with city of Wheaton to relay spraying dates

Duplication of Effort/Service

- 36 of the 45 Districts/Municipalities/Townships performing abatement services within DuPage County contract with Clarke.¹⁵
- The DuPage County Health Department's Environmental Health Division performs mosquito surveillance of West Nile mosquitos as it relates to public health. Clarke Environmental is also performing surveillance of mosquitos and reporting findings to the Illinois Department of Health.¹⁶

Procurement Methodology

- The Wheaton Mosquito Abatement District does not have a procurement policy.

Internal Controls

- The District maintains the following policies:
 - Designating Depositories: Designates Treasurer authority to deposit funds in the Wheaton Bank & Trust Company and First Choice Bank.¹⁷
 - Identity Protection Ordinance: requires that the District adopt and have in place and practice a policy regarding the collection, use, and disclosure of individuals' Social Security numbers.¹⁸
 - Investment Policy: calls for investment of public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all and local statutes governing the investment of public funds.¹⁹
 - Prevailing Wages Ordinance: requires that the District investigate and ascertain the prevailing rate of wages as defined in said Act for laborers, mechanics and other

workers in the locality of said District employed in performing construction of public works for said District.²⁰

- The District maintains an ethics policy that has been submitted and is on file with the County in accordance with ordinance OCB-001-11. Upon review, we found the following areas of inconsistency between the District and County's policy:
 - Political Contribution Limit
 - Ethics training requirement
 - Contractor disclosure
 - Conflict of interest
 - Future employment
 - Former employment relationships

Transparency and Accountability

- The Wheaton Mosquito Abatement District does not have a website or utilize the County's website to post meetings, meeting agendas, or meeting minutes.

Other

- The District has no employees and does not have a personnel policy, salary information, or organizational chart.

Operational Recommendation(s)

The following are recommendations that could be implemented immediately with little to no change in the structure of the organization.

Increase Transparency & Accountability

- Provide regular communication to the public and the County Board Chairman's Office.
- Consider assigning County staff to serve as a liaison between the Wheaton Mosquito Abatement District and DuPage County to improve communications, share information and best practices, etc.
- Post meeting information and other documentation online by utilizing the County's website

Increasing transparency through increased communication and ease of obtaining information allows for a higher level of accountability and sets a formal expectation of the conduct of appointed board members.

Implement Internal Controls Policies

Procurement

- The Wheaton Mosquito Abatement District does not have a Procurement Policy. We recommend the District adopt a procurement policy that contains all the standards of the DuPage County Procurement Policy.

Ethics

In order to more fully align its ethics policy with DuPage County, we recommend that the Wheaton Mosquito Abatement District **add** the following information:

- Political Contribution Limit – We recommend that trustees, if holding or running for any public office, are prohibited from soliciting or accepting cumulative campaign contributions of more than \$1,000 in a calendar year from any contractor, union, vendor, PAC, or lobbyists
- Ethics training requirement (may be part of new employee training)
- Contractor disclosure – We recommend that all contractors who have obtained a contract with the District greater than \$25,000 shall disclose all cumulative campaign contributions made in the previous 12 months
- Conflict of interest - We recommend that the District add a provision such that a trustee shall not engage in any act that conflicts with the full and proper discharge of duties and responsibilities and/or the District's interests
- Future employment – We recommend that trustees should not accept or discuss an offer of future employment with any person or entity doing or seeking to do business with the District
- Former employment relationships – We recommend that no employee within 1 year of entering employment with the District may participate in the decision making or awarding of a contract to a business by whom they were formerly employed

While the District does not frequently make major procurements, there may be a need for larger procurements related to abatement services and/or health emergencies. Adopting these policies will ensure that the District has the proper internal controls in place and establishes a formal standard of conduct.

Structural Recommendation(s)

The following are recommendations apply to the long-term sustainability of the organization and may require structural change.

Investigate a master contract for abatement services across all districts, municipalities, and townships

- Phase 1: Convene a group of representatives for all districts and municipalities performing mosquito abatement services as well as representation from the DuPage County Health Department.
- Phase 2: Negotiate a regional contract with Clarke Environmental for all abatement services provided within DuPage County.

A joint contract among the 45 districts performing abatement services provides a greater impact and addresses the greater need of the County. It creates an opportunity for greater cost-savings and efficiencies without any legislative or organization changes. Although no legislative changes would be necessary, discussions with abatement districts, municipalities, and townships performing abatement services would be necessary to ensure participation in the joint contract.

Consider dissolving the two districts and moving the function to the County Health Department

- Phase 1: Examine the potential benefits of shifting the abatement districts' powers and duties
- Phase 2: Absorb the two districts and shift their powers and duties to the County, continue to contract abatement services
- Phase 3: Based upon a future cost/benefit analysis, determine if the County should continue to contract for abatement services or bring services in house to the Public Works Department.

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- ¹ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 1
 - ² “MosquitoAbateDistAgencies72011Revised” DuPage County Health Department. 2011. Pg. 1
 - ³ “DuPage County Municipal Mosquito Control and Mosquito Abatement Districts” DuPage County Health Department. 2011. Pg. 1
 - ⁴ “Smaller Taxing District 1-30-2012” Excel Sheet provided by the DuPage County Clerk via Sheryl Markay. Jan. 30, 2012. Pg. 1.
 - ⁵ “Illinois Compiled Statutes: Special Districts (70 ILCS 1005) Mosquito Abatement District Act.” Illinois General Assembly Website. Accessed January 4, 2012.
<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=890&ChapterID=15>
 - ⁶ “Wheaton Mosquito Abatement District” DuPage County-Website. January 18, 2012.
http://www.dupageco.org/CountyBoard/Appointive_Bodies/31605/
 - ⁷ “mosq-public notice-meeting schedule” Wheaton Mosquito Abatement District. Pg. 1
 - ⁸ “wh mosq-audit 2011 ” Sikich LLP 2011 Pg. 19
 - ⁹ “2010 DuPage County Tax Extension Worksheets.” DuPage County Clerk. Pg. 32
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 - ¹¹ “WH Mosquito Audit 2011” Sikich. June 4, 2011 Pg. 10
 - ¹² “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 2
 - ¹³ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 1
 - ¹⁴ “wh mosq-contract-Clarke” Clarke Environmental & Wheaton Mosquito Abatement. January 3, 2011. Pg. 16
 - ¹⁵ “MosquitoAbateDistAgencies72011Revised” DuPage County Health Department. 2011. Pg. 1
 - ¹⁶ “Interview Notes” Interview with Donna Smith & Dennis Luehring. November 27, 2011. Pg. 3
 - ¹⁷ “Wh Mosq-Desination Depositories Res” DuPage County. 2007. Pg. 1
 - ¹⁸ “WH Mosq-Identitiy Protection Ord” DuPage County. 2011. Pg. 1
 - ¹⁹ “WH Mosq-Investment Policy” Wheaton Mosquito Abatement District. March 5, 2007 Pg. 2
 - ²⁰ “Wh Mosq-Prevailing Wages Ord” DuPage County. 2011. Pg. 1