



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS FINANCE AUTHORITY

State Compliance Examination
 For the Two Years Ended June 30, 2017

Release Date: March 13, 2018

FINDINGS THIS AUDIT: 9	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2013		17-3	
Category 2:	5	4	9	2012		17-2	
Category 3:	0	0	0	2010		17-4, 17-5	
TOTAL	5	4	9				
FINDINGS LAST AUDIT: 8							

INTRODUCTION

This digest covers the Illinois Finance Authority’s (Authority) compliance examination for the two years ended June 30, 2017. A separate financial audit as of and for the year ended June 30, 2017, was previously released on December 21, 2017. In total, this report contains nine findings, one of which was reported within the Authority’s financial audit.

SYNOPSIS

- (17-2) The Authority did not have adequate internal controls to properly maintain records for monitoring covenant compliance for conduit debt or debt issued on behalf of other State agencies.
- (17-3) The Authority did not have a full-time internal audit program in place during the examination period.
- (17-4) The Authority did not timely and accurately submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information and Activity Measures are summarized on next page.}

**ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017**

FINANCIAL INFORMATION	2017	2016	2015
Total Revenues.....	\$ 21,636,830	\$ 10,512,294	\$ 9,321,642
Interest on loans.....	\$ 14,234,509	\$ 4,803,512	\$ 5,183,052
% of Total Revenues.....	65.8%	45.7%	55.6%
Interest and investment income.....	\$ 2,047,120	\$ 899,506	\$ 642,885
% of Total Revenues.....	9.5%	8.5%	6.9%
Closing and administrative service fees.....	\$ 4,290,236	\$ 3,821,805	\$ 2,491,601
% of Total Revenues.....	19.8%	36.4%	26.7%
Transfer of funds and interest in program from the State of Illinois.....	\$ 452,379	\$ 425,846	\$ 447,531
% of Total Revenues.....	2.1%	4.1%	4.8%
Other revenues.....	\$ 612,586	\$ 561,625	\$ 556,573
% of Total Revenues.....	2.8%	5.3%	6.0%
Total Expenses.....	\$ 18,514,664	\$ 9,126,562	\$ 8,999,409
Interest expense.....	\$ 12,143,791	\$ 4,002,636	\$ 4,279,926
% of Total Expenses.....	65.6%	43.9%	47.6%
Employee-related expenses.....	\$ 1,769,136	\$ 1,798,679	\$ 1,702,215
% of Total Expenses.....	9.6%	19.7%	18.9%
Professional services.....	\$ 1,185,097	\$ 1,936,757	\$ 1,539,522
% of Total Expenses.....	6.4%	21.2%	17.1%
Occupancy costs.....	\$ 175,705	\$ 244,745	\$ 271,431
% of Total Expenses.....	0.9%	2.7%	3.0%
Other expenses.....	\$ 3,240,935	\$ 1,143,835	\$ 1,206,315
% of Total Expenses.....	17.5%	12.5%	13.4%
Average Number of Employees (Unaudited)....	14	14	17

SELECTED ACTIVITY MEASURES (UNAUDITED)	2017	2016	2015
Conduit debt outstanding (in thousands).....	\$ 23,716,442	\$ 24,058,229	\$ 23,058,826
Number of conduit debt issues outstanding.....	1,186	1,262	1,328
New bond issues (in thousands).....	\$ 4,142,508	\$ 3,779,532	\$ 2,511,315
Number of new issues	56	54	30
Total expenses/total number of issues.....	\$ 15,611	\$ 7,232	\$ 6,777

EXECUTIVE DIRECTOR
During Examination Period: Mr. Christopher Meister
Currently: Mr. Christopher Meister

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

MONITORING OF DEBT

The Authority did not have adequate internal controls to properly maintain records for monitoring covenant compliance for conduit debt or debt issues on behalf of other State agencies.

During testing of the Authority's records for 60 conduit bonds outstanding during the examination period we noted the following:

- 51 of the 60 (85%) bond issuances required annual certifications from borrowers that could not be provided by the Authority for the auditors to review. The Authority requires borrowers to submit these annual certifications as a means of monitoring compliance with required covenants. In the certifications, the borrower verifies they have reviewed the activities of the prior year for the purpose of determining their compliance with the covenants and that they are not in default on any covenant. If the borrower is in default on one or more covenants, the borrower is required to list and detail each instance of non-compliance.
- 10 of the 42 (24%) bond issuances which required the Authority to set-up trustee accounts were missing documentation showing all required trustee accounts had been established. The bond documents require these accounts as a way to track and properly account for the funds obtained through the bond issuance and the funds accumulated to pay off the obligation. Between the 10 bond issuances, there were 30 accounts for which no documentation was provided to show the account was established.
- In fiscal year 2014, the Authority began developing a new monitoring checklist to better monitor the Authority's compliance requirements for outstanding bond issuances. This process was delayed due to staffing constraints and so no monitoring checklists were made for the 60 issuances selected for testing. (Finding 2, pages 13-14) **This finding has been repeated since 2012.**

Annual certifications could not be provided by the Authority

Monitoring checklists were not completed

We recommended the Authority strengthen and maintain adequate controls over its monitoring of conduit covenant compliance.

Authority agrees with the auditors

Authority officials agreed with our recommendations. *(For the previous Authority response, see Digest Footnote #1.)*

INTERNAL AUDIT

The Authority did not have a full-time internal audit program in place during the examination period.

Early in fiscal year 2016, the Authority terminated its contract with an independent accounting firm serving as the Authority’s internal audit function. The function was reestablished in June 2017, when the Authority entered into an intergovernmental agreement with the Department of Central Management Services (CMS) for CMS to provide the service. Due to this time gap, the following deficiencies were noted:

- An audit of the Authority’s 2015 GAAP package and financial statement process was the only internal audit completed in fiscal year 2016.
- No internal audits were conducted during fiscal year 2017.
- The Authority implemented a major revision to its financial system during fiscal year 2016 which was not reviewed by the Authority’s internal audit function.
- No report was provided to the Director of the Authority in fiscal year 2016 or 2017 summarizing how the audit plan had been carried out, including any significant findings and the implementation status of any suggested corrective actions. (Finding 3, pages 15-16) **This finding has been repeated since 2013.**

No internal audits were conducted in FY17

Internal audit function did not review a major revision to the financial system

We recommended the Authority work with its newly appointed internal auditor to ensure compliance with the requirements of the Fiscal Control and Internal Auditing Act going forward.

Authority agrees with the auditors

Authority officials agreed with our recommendations. *(For the previous Authority response, see Digest Footnote #2.)*

DELINQUENT AND INACCURATE REPORTING OF BOND ACTIVITY

The Authority did not timely and accurately submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller.

During testing of 60 bond issuances and the 367 distinct payments selected for testing which required the filing of a

Notice of Payment of Bond Interest and/or Principal report (Form C-08) during the examination period, the auditors noted the following:

C-08's were submitted between 3 and 752 days late

- 46 of the 367 (13%) Form C-08s tested were submitted to the Office of the State Comptroller between 3 and 752 days late. For each of the issues tested, the Authority had agreements in place for the paying agents to file the Form C-08 within the required timeframe.

Missing reports

- 12 of the 367 (3%) Form C-08s could not be provided by the Authority for testing and were deemed missing.
- 3 of the 54 (6%) Form C-08s tested which were filed after a new Bond Interest and Redemption Schedule (Form C-05) was required to be filed with the Office of the Comptroller during the examination period did not agree with the Form C-05.
- 3 of the 60 (5%) Form C-08s tested for the last payment made before the end of the Authority's fiscal year-end reported higher ending outstanding principal balances than the ending principal balances recorded in the Authority's records and reported in the notes to its financial statements. (Finding 4, pages 17-18)
This finding has been repeated since 2010.

We recommended the Authority continue to monitor and work with the paying agents to improve compliance with principal and/or interest reporting requirements.

Authority agrees with the auditors

Authority officials agreed with our recommendations. (*For the previous Authority response, see Digest Footnote #3.*)

OTHER FINDINGS

The remaining findings pertain to failing to reconcile and record cash received, noncompliance with its travel policy, contracts not properly executed, employee performance evaluations, noncompliance with the Illinois Finance Authority Act, and Agency Workforce Reports and are reportedly being given attention by the Authority. We will review the Authority's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Illinois Finance Authority for the two years ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by RSM US LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 - Monitoring of Debt

2015 - We agree with the Auditor's recommendations. Over the past several years the Authority has continued to increase the resources committed to bond compliance and monitoring even while our revenues have declined. We also implemented digital systems to allow us to better monitor covenant compliance with respect to conduit debt, better manage and retrieve documents with respect to conduit debt and better track covenant obligations of the Authority under the conduit bond documents.

#2 - Inadequate Internal Audit Function

2015 - We agree with the Auditor's recommendations. The Authority's appointed internal auditor has developed an audit plan and the Authority will work with the internal auditor to ensure compliance with the requirements of State law.

#3 - Delinquent and Inaccurate Reporting of Bond Activity

2015 - We accept the Auditor's recommendation. As stated in our response to Finding 2015-004 the Authority continues to increase resources dedicated to compliance and we will continue to work with the contracted bond trustees to improve compliance with and accuracy of principal and interest reporting requirements.