McGladrey & Pullen
Certified Public Accountants

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2008

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2008

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Financial Statement Report:

The Authority's financial statement report for the year ending June 30, 2008, which includes the report of independent auditors, management's discussion and analysis, basic financial statements, supplementary information, and the independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2008

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Agency Officials

Executive Director	DeShana L. Forney
General Counsel	Mary R. Kenney
Chief Financial Officer	Robert W. Kugel
Controller	James J. Kregor

Agency Officials are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

McGladrey & Pullen LLP
20 North Martingale Rd., Ste 500
Schaumburg, IL 60173-2420

February 24, 2009

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Housing Development Authority (Authority). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2008. Based on this evaluation, we assert that during the year ended June 30, 2008, the Authority has materially complied with the assertions below.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Very truly yours,

Illinois Housing Development Authority

DeShana L. Forney
Executive Director

James J. Kregor
Controller

Robert W. Kugel
Chief Financial Officer

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2008

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountants' Report

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant nonstandard language.

Summary of Findings

Number of	Current report	Prior report(s)
Findings	10	10
Repeated findings	5	4
Prior recommendations implemented or not repeated	5	5

Details of findings are presented in the separately tabbed report section of this report.

Schedule of Findings and Questioned Costs

Findings and Responses (Government Auditing Standards and State Compliance)

Item No.	Page		Finding Type
08-01	15	Inadequate Reconciliation Procedures for Deposits Held in Escrow	Significant Deficiency and Noncompliance
08-02	16	Inconsistencies in the Loan Monitoring and Loan Rating System	Significant Deficiency and Noncompliance
08-03	17	Loan Receivable Balance and Allowance for Loan Loss Balance Overstated	Significant Deficiency and Noncompliance

Compliance Report Summary (Continued)

Year ended June 30, 2008

Findings and Questioned Costs (Federal Compliance)

Item No.	Page	Description	Finding Type
08-04	18	Inadequate Cash Management Procedures for Section 8 and Section 236 Programs	Significant Deficiency and Noncompliance
08-05	20	Inadequate Monitoring of the Davis-Bacon Act Requirements	Significant Deficiency and Noncompliance
08-06	22	Inadequate Monitoring of Section 3 Reports from Multi-Family Projects and Unsupported Annual Performance Report (Section 3) of the Authority	Significant Deficiency and Noncompliance
08-07	24	Inadequate Administration of the Section 8 Moderate Rehabilitation Program	Significant Deficiency and Noncompliance
08-08	27	Inadequate Monitoring of Housing Quality Standards (HQS) Inspections	Significant Deficiency and Noncompliance
08-09	29	Inadequate Monitoring of Residual Receipts	Significant Deficiency and Noncompliance

Findings and Responses (State Compliance)

Item No.	Page	Description	Finding Type
08-10	31	Office of Internal Audit Deficiencies	Significant Deficiency and Noncompliance

Prior Findings Not Repeated (Government Auditing Standards)

Item No.	Page	Description
A	33	Incomplete Documentation for the Risk Ratings Assigned to Program Loans
B	33	Inadequate Process for the Establishment of New Loans in the Loan Subsidiary System
C	33	Inadequate Process for Calculating and Reporting Loss on Debt Refunding Transaction

Prior Findings Not Repeated (Federal Compliance)

Item No.	Page	Description
D	33	Inaccurate Financial Reports
E	33	Failure to Obtain Suspension and Debarment Certifications

Exit Conference

The findings and recommendations appearing in this report were discussed with the Authority personnel at an exit conference on February 17, 2009. Attending were:

Illinois Housing Development Authority		McGladrey & Pullen, LLP	
DeShana L. Forney	Executive Director	Joseph Evans	Partner
Robert W. Kugel	Chief Financial Officer	Tiffany Floresca	Staff
James J. Kregor	Controller		
Barbara Manning	Chief Internal Auditor		
Jane R. Bilger	Chief of Staff		
Ronald Gajos	Asst. Controller		

Office of the Auditor General

Karen Appelbaum	Manager

Responses to the recommendations were provided by DeShana L. Forney in a letter dated February 24, 2009.

McGladrey & Pullen
Certified Public Accountants

Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the
Illinois Housing Development Authority:

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Development Authority's, a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2008. The management of the Illinois Housing Development Authority (the Authority) is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Illinois Housing Development Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2008. However, the results of our procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings and questioned costs as finding 08-10.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Authority's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-01, 08-02, 08-03 and 08-10 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the nonmajor governmental fund of the Authority as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information for 2008, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008, taken as a whole.

The basic financial statements of the Authority for the years ended June 30, 2007 and 2006, were audited by other auditors whose reports thereon dated October 26, 2007 and November 7, 2006, respectively, expressed an unqualified opinion on the basic financial statements. Their 2007 and 2006 Independent Accountant's Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes stated that, except for that portion marked "unaudited," the Supplementary Information for State Compliance Purposes was fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2007 and 2006, taken as a whole.

The Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings and questioned costs. We did not examine the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 25, 2009

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the
Illinois Housing Development Authority:

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the nonmajor governmental fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination or control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described as findings 08-1, 08-2 and 08-3 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
October 24, 2008

McGladrey & Pullen

Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the
Illinois Housing Development Authority

Compliance

We have audited the compliance of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Illinois Housing Development Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 08-04, 08-05, 08-06, 08-07, 08-08 and 08-09.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 08-04, 08-05, 08-06, 08-07, 08-08 and 08-09 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the nonmajor governmental fund of the Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated October 24, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 25, 2009

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***unqualified opinions***

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	✓	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	✓	Yes		None reported
• Noncompliance material to financial statements noted?		Yes	✓	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?		Yes	✓	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	✓	Yes		None reported

Type of auditors' report issued on compliance for major programs: ***unqualified.***

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	✓	Yes		No

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
14.182 and 14.856	Section 8 Project-Based Cluster
14.239	HOME Investment Partnerships Program
14.103	Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families
21.000	National Foreclosure Mitigation Counseling Program

Dollar threshold used to distinguish between type A and type B programs: $ 3,000,000

Auditee qualified as low-risk auditee?		Yes	✓	No

Finding 08-01 Inadequate Reconciliation Procedures for Deposits Held in Escrow

The Illinois Housing Development Authority (Authority) does not have an adequate process for reconciling the general ledger with the subsidiary ledger used to account for deposits held in escrow.

The Authority is holding $166,077,785 in escrow deposit balances as of June 30, 2008. There are approximately 1,850 individual escrow balances. All escrow deposit balance transactions must be tracked in detail in a subsidiary ledger. The Authority uses a software program to track the individual escrow deposit accounts.

Deposits from developers, which are held in escrow by the Authority, are primarily used to pay tax and insurance payments and capital improvements. Also, the deposits are used to make principal and interest payments and fund construction cost overruns, change orders or operating deficits.

The Authority implemented procedures in the current year to reconcile the escrow account detail subsidiary ledger records to the general ledger. However, the Authority was unable to reconcile the escrow accounts resulting in an adjusting entry of $252,963 for unidentified variances. The Authority should be reconciling the subsidiary records to the general ledger on a monthly basis and resolving discrepancies timely.

Authority management stated that they have implemented procedures and are continuing to test those procedures to reconcile the escrow accounts but they were unable to locate the variances as they likely have occurred over a number of years.

Without adequately reconciling the deposits held in escrow, the Authority may not have adequate funds on hand to satisfy liabilities incurred that are funded with escrow balances. (Finding Code No. 08-01, 07-03).

Recommendation

We recommend that the Authority reconcile escrow accounts on a regular basis in order to prevent unidentified variances.

Authority Response

The Authority concurs with the recommendation and is currently testing a monthly reconciliation procedure that it has developed.

Finding 08-02 Inconsistencies in the Loan Monitoring and Loan Rating System

The Illinois Housing Development Authority (Authority) has inconsistencies in the process for monitoring problem loans and inconsistencies in the evaluation of factors used to rate loans for the allowance for loan loss estimate.

The Authority's Assets Management Services Department performs an annual property inspection and loan review in order to rate loans for the calculation of the allowance for loan loss estimate. We tested over 200 loans for various aspects of compliance with established procedures to rate loans. In one test, we noted that 4 of the 20 loans we tested did not have the debt service coverage ratio calculated, which evaluates the borrowers ability to repay the debt. In another test, 13 of the 20 loans we tested did not have the original appraisal or an updated appraisal in order to calculate the loan to value ratio, which is used to evaluate the market value of the underlying collateral. One of our other tests revealed that the documentation for an individual loan did not contain the correct address.

During our audit of the Authority's loan receivable balances, we noted the "watch list"; a tool to monitor problem loans, was incomplete according to the Authority's rating policies of a "watch list" loan. In addition, the Authority does not have a formal policy to stop accruing and recognizing interest income on delinquent loans.

The calculation of the allowance for loan loss estimate requires various elements of monitoring and evaluating the collectibility of loan receivable balances. In accordance with generally accepted accounting principles, the estimate should be supported by detailed information including information derived from monitoring tools and consistent loan rating factors.

Authority management stated that the loan monitoring and rating system, which was implemented in stages beginning in May 2007, with the adoption of a comprehensive Loan Loss Rating Policy, includes risk analysis of the entire multi-family portfolio. The Authority recognizes that inconsistencies have occurred as its staff adjusts to new procedures to implement the policy. The Authority stated that they are working to reduce any inconsistencies or weaknesses detected.

The allowance for loan loss estimate as of June 30, 2008 was $34,185,000. Without consistent tools to monitor and rate the collectability of the loans, the estimate could be over or under stated. (Finding Code No. 08-02).

Recommendation

We recommend that the Authority develop policies and procedures to ensure the "watch list" reports are complete and accurate. In addition, we recommend the Authority implement procedures to ensure that the Asset Management Services department receives the necessary documents to accurately perform their annual loan review. Also, the Authority should develop a formal policy to suspend recognizing interest income on delinquent loans.

Authority Response

The Authority concurs with the recommendations and is continuing its efforts to correct inconsistencies as it continues to implement its comprehensive Loan Loss Rating Policy. The Authority will adopt policies and procedures to ensure the "watch list" reports are complete and accurate, as well as develop a formal policy to suspend recognizing the interest income on delinquent loans. Additional efforts will be made to ensure that the Asset Management department receives all necessary documents to accurately perform their annual loan review.

Finding # 08-03 Loan Receivable Balance and Allowance for Loan Loss Balance Overstated

The Illinois Housing Development Authority (Authority) has loan balances recorded in their financial statements that should be removed due to the loans being uncollectible.

During our audit of the Authority's allowance for loan loss estimate, we noted loans totaling approximately $17.4 million were recorded on the Authority's financial statements for which a 100% allowance reserve was recorded. The Authority anticipates that most of these loans will be written off.

In accordance with generally accepted accounting principles, receivable balances that are uncollectible should be written off and removed from financial statements.

Authority management stated that several loan write-offs are pending approval from the Attorney General's Office and the Authority is continuing to submit additional requests.

The significant effect of not writing off the loan balances and the corresponding allowance, results in overstatements of the Authority's loans receivable balance and the allowance for loan loss balance. (Finding Code No. 08-03).

Recommendation

We recommend that the Authority work with the Attorney General's Office to get approval to write-off the uncollectible loan balances.

Authority Response

The Authority concurs with the recommendation and has, and will continue to, submit information to the Attorney General's Office to get approval to write-off the uncollectible loan balances.

08-04 Inadequate Cash Management Procedures for Section 8 and Section 236 Programs

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*Section 8 Project-Based Cluster*
	Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families
CFDA# and Program Expenditures:	*14.182 ($137,154,397)*
	14.856 ($7,612,156)
	14.103 ($5,395,775)
Award Number:	*None*
Questioned Costs:	*None*

The Illinois Housing Development Authority (Authority) does not have procedures in place to ensure cash draws are performed in accordance with U.S. Treasury Regulations for the Section 8 Project-Based Cluster (Section 8) Program and the Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families (Interest Reduction) Program.

The Authority receives its Section 8 program funding during the first week of each month, based upon monthly reports for individual properties submitted by the Authority during the previous month and then approved by the U.S. Department of Housing and Urban Development. The Authority receives its Interest Reduction Program funding during the first week of each month based upon amounts approved by the U.S. Department of Housing and Urban Development in the Housing Assistance Payment (HAP) contracts. The Authority either applies the amounts received to the loan principal or interest balance or transfers the amount to the development during the third week of the month. During our testing we selected three months of HAP (Section 8) payments and two of the three months had payments that were submitted one or two days late. We also selected 32 Interest Reduction subsidy payments received and noted that the Authority held funds for an average of 11 days before the funds were either applied to the loan balances or disbursed to the development.

31 CFR Part 205.33 (a) of the U.S. Treasury Regulations requires that a Federal Program Agency must limit a funds transfer to a recipient to the minimum amounts needed by the recipient and must time the disbursement to be in accord with the actual, immediate cash requirements of the recipient in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to the Authority's actual cash outlay for direct program costs. This section has been interpreted to mean that funds should be disbursed within 3 – 5 business days from receipt. The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations.

Authority management stated that a substantial portion of subsidy amounts received are applied to the development's next billing, if the development has financing with the authority, and only a portion, if any, of the subsidy amount is physically transferred to the recipient. All of the developments cited currently have loans with the Authority to which the subsidy amount is applied.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in the cognizant agency, the U.S. Department of Housing and Urban Development, to sanction the Authority for noncompliance or possibly reduce the funding of the Section 8 and Interest Reduction Programs. (Finding Code No. 08-04, 07-08, 06-03, 05-04, 04-05)

Recommendation

We recommend the Authority implement procedures to ensure federal funds are disbursed in accordance with U.S. Treasury Regulations.

Authority Response

The Authority concurs that federal funds should be disbursed in accordance with the U.S. Treasury Regulation. The Authority has previously implemented a number of changes to its procedures, including an acceleration of its billing cycle, in order to accelerate the federal funds disbursement process while ensuring that its procedures are administratively feasible without introducing the risk of making inaccurate transfers. The Authority has brought its Section 8 project funding into compliance and is developing and implementing additional computer system and procedural enhancements to further streamline the application of funds process, which will allow for further accelerations of the transfer process.

08-05 Inadequate Monitoring of the Davis-Bacon Act Requirements

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*HOME Investment Partnerships Program*
CFDA# and Program Expenditures:	*14.239 ($21,850,617)*
Award Number:	*M-07-SG-17-0100*
	M-08-SG-17-0100
Questioned Costs:	*None*

The Authority could not locate the Labor Relations Agreement for two subcontractors. The absence of this agreement means that the Authority would not be able to validate whether the subcontractors are following wage rate clauses. In addition, one subcontractor failed to follow the prevailing wage rate, resulting in underpayments to three employees and submitted a weekly payroll without an authorized signature.

The Authority is required to verify that the prevailing wage rate clauses are included in the contract, that the subcontractor submits the required certified payrolls on a weekly basis, that the wages in the certified payroll are in accordance with the prevailing wage rates and are calculated correctly and that payroll forms or records are properly signed by an authorized officer.

The Department of Labor's (DOL) government-wide implementation of the Davis-Bacon Act, or by Federal program legislation, requires all laborers and mechanics employed by contractors or subcontractors that work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

The requirements for the Davis-Bacon Act are also contained in the A-102 Common Rule (§___.36(i)(5) and OMB Circular A-110 (Appendix A Contract Provisions).

Authority management stated that the two subcontractors failed to send in the Labor Relations Agreements with their certified payrolls. The Authority has recently implemented additional procedures, including the withholding of payments to subcontractors, to enforce compliance with the reporting requirements.

Failure to monitor the Davis Bacon Act requirements in accordance with HUD regulations could result in ineligible payments, resulting in underpayments or overpayments to workers. (Finding Code No. 08-05)

Recommendation

We recommend that the Authority implement procedures to monitor contractors and subcontractors in their submittal of weekly certified payrolls to ensure prevailing wage rate clauses are included in the contracts, to ensure wages in the certified payroll are in accordance with the prevailing wage rates of the construction site and payroll forms are properly signed and authorized by an employee of the contractor or subcontractor.

Authority Response

The Authority concurs with the recommendations and has recently implemented additional procedures to enforce compliance with the reporting requirements.

08-06 Inadequate Monitoring of Section 3 Reports from Multi-Family Projects and Unsupported Annual Performance Report (Section 3) of the Authority

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*HOME Investment Partnerships Program*
CFDA# and Program Expenditures:	*14.239 ($21,850,617)*
Award Number:	*M-07-SG-17-0100*
	M-08-SG-17-0100
Questioned Costs:	*None*

The Authority did not receive completed Section 3 compliance forms from subrecipients. The Authority is required to submit an annual "HUD 60002, *Section 3 Summary Report,* Economic Opportunities for Low-and Very Low-Income Persons" (Section 3 Summary Report) to report annual accomplishments regarding employment and other economic opportunities provided to low and very low income persons under Section 3 of the Housing and Urban Development Act of 1968. The amounts reported include Section 3 expenditure data from the subrecipients of the HOME program.

The Authority issued new procedures on Section 3 Compliance for Multi-Family Projects which includes standard forms to be completed prior to closing of the loan. The requirements of this new procedure include the submission of a completed Section 3 Certification and a completed Recipient Section which includes information on the Current Work Force Profile and Hiring Plan, Section 3 Report, Estimated Project Work Force Breakdown, Contracting Plan Worksheet, Section 3 Clause and Home Program Contractor and Subcontractor Activity Summary Combined MBE/WBE.

During our audit, we noted that 5 multi-family projects that are required to comply with the new procedures (effective October 2007), did not comply with the Authority's new requirements as stated in the Section 3 Manual for Multi-Family Projects. We also reviewed 11 contractor/subcontractor projects (occurring prior to October 2007) required to submit the Section 3 report and observed that the majority of the forms submitted were not properly completed.

According to 24 CFR Section 135.90, each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit an annual report in such form and with such information as the Assistant Secretary may request for the purpose of determining the effectiveness of Section 3. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure performance reports are complete and accurate.

Authority management stated that sub recipient compliance with the new procedures will likely take some time as they adjust to the requirements imposed with the new procedures. The Authority also is implementing additional internal procedures to ensure compliance, including withholding construction pay-outs.

Failure to accurately report Section 3 expenditures prevents the U.S. Department of Housing and Urban Development from effectively monitoring the Section 3 program. (Finding Code No. 08-06, 07-06)

Recommendation

We recommend the Authority implement procedures to ensure information reported in the annual Section 3 Summary Report is complete and accurate.

Authority Response

The Authority concurs with the recommendation to implement procedures to ensure that information reported in the annual Section 3 Summary Report is complete and accurate. HUD regulations indicate that the information for the Section 3 reporting will be furnished by the subrecipients. The Authority has implemented a process for guiding the submission of these reports from subrecipients and performing a review of these reports for completeness. The Authority subsequently has implemented additional internal procedures to ensure compliance with reporting from subrecipients.

08-07 Inadequate Administration of the Section 8 Moderate Rehabilitation Program

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*Section 8 Project-Based Cluster*
CFDA# and Program Expenditures:	*14.856 ($7,612,156)*
Award Number:	*None*
Questioned Costs:	*None*

The Authority is not properly administering the Section 8 Moderate Rehabilitation Program.

The Section 8 Moderate Rehabilitation (Mod Rehab) Program assisted low income families to obtain decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families. The Mod Rehab program assistance is considered a project-based subsidy because the assistance is tied to specific units under an assistance contract with the owner for a specified term. A family that moves from a unit with project-based assistance does not have any right to continued assistance. As provided in the Authority's Administrative Plan for the Mod Rehab Program, the Authority passes through the Mod Rehab subsidies to the developments or the owners of the property, which the Authority considers to be subrecipients of the program. The Authority conducts on-site programmatic and fiscal monitoring as well as desk reviews of audit reports of the subrecipients to monitor compliance with the Mod Rehab Program requirements.

During fiscal year 2007, staff from the Illinois Office of Public Housing (a regional office of the U.S. Department of Housing and Urban Development (HUD)) conducted an audit of the Authority's Mod Rehab Program to assess the Authority's compliance with HUD regulations. The final audit report received from the Illinois Office of Public Housing indicated the Authority did not comply with numerous HUD regulations when the audit team assessed the Authority's overall program operation of the Section 8 Mod Rehab Program. The final audit report stated that the Authority is receiving administrative fees to operate the Section 8 Mod Rehab program, yet it is not performing the major administrative functions HUD expects it to perform under its contractual obligations with HUD due to the manner in which the Authority delegates the performance of programmatic activities to its subrecipients. HUD is concerned that the Authority is not maintaining a waiting list for the Mod Rehab Program. Additionally, HUD is concerned that the Authority is not assessing eligibility, conducting briefings, conducting reexaminations, monitoring the assignment of appropriate unit sizes, evaluating Utility Schedules or conducting inspections regularly. The audit report states that the Authority is overseeing the administration of these functions by monitoring the properties that receive funding for units under the Section 8 Mod Rehab program. However, the entities actually administering the program do not have contracts with the Authority to administer the program, nor are they operating it in accordance with the applicable HUD regulations. The audit report further states that there is no provision in the federal law that would allow the Authority to contract its oversight functions to the owner. To allow this to occur would be a conflict of interest.

Per the 2007 corrective action plan, the Authority stated it will continue to consult with HUD. If it cannot resolve the matter regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program, the Authority will request a waiver to allow it to continue to administer the program in accordance with its recently revised administrative plan. The Authority sent a follow up response to the Final Assessment Report for Section 8 Moderate Rehabilitation Program dated September 12, 2008. To date, no response has been received from HUD.

According to 24 CFR 882.513, 882.514(b), the public housing authority (PHA) must maintain a waiting list for applicants for the Mod Rehab Program. When vacancies occur, the public housing authority will refer to the owner one or more appropriate size families on its waiting list. According to 24 CFR 882.514, the PHA is responsible for receipt and review of applications and determination of family eligibility for participation in accordance with HUD regulations. According to 24 CFR 882.514(d), when a family is initially determined to be eligible for housing assistance payments or is selected for participation in accordance with this section, the PHA must provide the family with information (brief the family) as to the Tenant Rent and the PHA's schedule of utility allowances. According to 24 CFR 882.515, the PHA must reexamine the income and composition of all families at least once every 12 months. According to 24 CFR 882.510, the PHA must determine, at least annually, whether an adjustment is required in the Utility Allowance applicable to the dwelling units in the Program, on grounds of changes in utility rates or other change of general applicability to all units in the Program. According to 24 CFR 882.516(b), in addition to the inspections required prior to execution of the Contract, the PHA must inspect or cause to be inspected each dwelling unit under Contract at least annually and at other times as may be necessary to assure that the owner is meeting the obligation to maintain the unit in decent, safe and sanitary condition and to provide the agreed upon utilities and other services.

Authority management indicated that it is administering the Moderate Rehabilitation Program in accordance with its administrative plan, which has been in place since the inception of the program in 1984, and was recently revised to accommodate a portion of HUD's concerns, but continues to allow for the delegation of certain functions to the owners of each property. Authority management also indicated that they recently sent to HUD a proposal to further address HUD's concerns and are awaiting a response.

Failure to administer the Section 8 Mod Rehab program in accordance with HUD regulations could result in the payment of ineligible payments, resulting in unallowable costs. (Finding Code No. 08-07, 07-05)

Recommendation

We recommend the Authority consult with the U.S. Department of Housing and Urban Development to interpret the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program and make necessary changes to conform with those requirements.

Authority Response

The Authority concurs with the recommendations to consult with the U.S. Department of Housing and Urban Development (HUD) and come to an agreement regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program.

The Authority has operated this program in accordance with various administrative plans, beginning in 1984, and has delegated a number of program functions to development owners and agents during this time. The Authority entered this program, along with a number of other State Housing Authorities, at HUD's invitation, and over the years HUD did not object, until recently, to the above delegations of program functions.

The Authority is not a public housing authority (PHA) in the manner that HUD envisions, and does not retain ownership and control of the developments receiving assistance. Therefore, the Authority can not directly manage PHA functions for privately owned developments, such as processing Tenant Applications and Waiting Lists, calculation of Tenant Rent and preparation of the schedule of utility allowances. As a result, these functions were delegated, with the Authority maintaining oversight.

The Authority believes that its administration has been adequate, and has continued to consult with HUD to reach a resolution on this matter. The Authority has conferred with HUD during fiscal year 2008, and has implemented a number of procedural and administrative plan changes in response to the HUD findings. In January 2009, the Authority sent an additional response to HUD regarding previously identified resolutions to the remaining open findings. The Authority has not yet received a response from HUD to this communication, but is taking steps to implement this proposal, pending HUD's approval. The Authority will continue to consult with HUD in an effort to resolve the differences in interpretations.

08-08 Inadequate Monitoring of Housing Quality Standards (HQS) Inspections

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*Section 8 Project-Based Cluster*
	HOME Investment Partnerships Program
CFDA# and Program Expenditures:	*14.182 ($137,154,397)*
	14.856 ($7,612,156)
	14.239 ($21,850,617)
Award Number:	*None*
Questioned Costs:	*None*

The Authority did not adequately monitor the Housing Quality Standards (HQS) Inspections for the Section 8 Programs and the HOME Investment Partnerships Program.

During the review of 32 development Housing Quality Standards (HQS) Inspections, we noted the following:

- In 1 of the 32 developments tested, we noted the Authority sent incorrect correspondence to developers.
- In 3 of the 32 developments tested, we noted inspection reports were not properly completed by the inspectors.
- In 7 of the 32 developments tested, we noted the Authority did not have proper documentation that deficiencies were properly corrected.
- In 6 of the 32 developments tested, we noted the Authority did not meet the required number of inspections.

According to 24 CFR 982.401 (a), performance and acceptability requirements, housing quality standards (HQS) for housing assisted projects must meet the following acceptability criteria or HUD approved variations in the acceptability criteria, namely: sanitary facilities, food preparation and refuse disposal, space and security, thermal environment, illumination and electricity, structure and materials, interior air quality, water supply, lead-based paint, access, site and neighborhood, sanitary conditions; and smoke detectors. According to 24 CFR 982.401 (a)(3), all program housing must meet the HQS performance requirements both at commencement of assisted occupancy, and throughout the assisted tenancy.

Authority management indicated that the inspectors misread the inspection reports, and therefore improperly completed portions of them, and that filing was not always completed because the inspectors were out of the office performing property inspections during most of their working days.

Failure to monitor the Housing Quality Standards (HQS) Inspections for Section 8 Programs and the HOME Investment Partnership Program could result in sanctions from the cognizant agency and it may result in loss of funding. (Finding Code No. 08-08)

Recommendation

We recommend that the Authority strictly enforce its HQS inspection procedures in place which include timely follow ups, keeping the Inspection Tracking Report current, maintaining proper documentation of all inspections conducted, maintaining support for all deficiencies corrected and correspondence to developments regarding the inspections.

Authority Response

The Authority concurs with the recommendation that it strictly enforce its HQS inspection procedures in place and updated its administrative procedures to include timely follow ups, keeping the Inspection Tracking Report current, maintaining proper documentation of all inspections conducted, maintaining support for all deficiencies corrected and correspondence to developments regarding the inspections.

08-09 Inadequate Monitoring of Residual Receipts

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*Section 8 Project-Based Cluster*
CFDA# and Program Expenditures:	*14.182 ($137,154,397)*
	14.856 ($7,612,156)
Award Number:	*None*
Questioned Costs:	*None*

Residual receipts due from the developments are not deposited within the required 60 days grace period following the development's year end.

During our audit, we tested 20 residual receipts totaling $2,078,820 and noted 17 developers did not deposit residual receipts within the timeframe set forth by the program. On average, the deposits were 90 days late.

Per A-133 Compliance Supplement of the Section 8 cluster, any project funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited with the mortgagee or other HUD-approved depository in an interest bearing account. For projects under 24 CFR part 883, the funds must be deposited with the State Agency or other Agency-approved depository in an interest bearing account. Withdrawals from this account may be made only for project purposes and with the approval of HUD or the State Agency for 24 CFR part 883 projects, as applicable (24 CFR sections 880.601, 881.601, and 883.701). The main objective of this special provision is for a residual receipts account to be properly established, required deposits made within the 60 days following year-end, and disbursements only for approved project purposes.

Authority management indicated that they were not aware of this requirement but, in any event, audits for all properties could not be completed within the above noted time frames.

Inadequate monitoring of the residual receipts could result in sanctions from the cognizant agency. (Finding Code No. 08-09)

Recommendation

We recommend the Authority implement procedures to ensure residual receipts are deposited within the required timeframe.

Authority Response

The Authority concurs in principal with the recommendation to implement procedures to ensure residual receipts are deposited within the required timeframe. Under the currently well-established procedures, the amounts of the residual receipts to be deposited are not determined until the audits of the existing developments are completed. From these audits, the Authority then makes a determination of the residual receipt amount and then bills the developments for these amounts. It is not possible for all audits and the ensuing determination processes to be completed within the 60 day time frame, as there are only a limited number of firms conducting such audits. The Authority also wishes to note that, for most of its financed developments, the residual receipts account is well established and funded, and existing funds are sufficient to meet capital needs, such that any requested withdrawals are not dependent upon making the current year deposit within the 60 day time frame. The Authority will discuss this requirement with HUD and seek a determination of their expectations of developments meeting this requirement. HUD has not previously expressed to the Authority any concern over this matter.

08-10 Office of Internal Audit Deficiencies

The Authority's Office of Internal Audit (OIA) did not perform auditing procedures in conformity with International Standards for the Professional Practice of Internal Auditing, and did not comply with the Fiscal Control and Internal Auditing Act of the State of Illinois.

During fiscal year 2007, the OIA conducted a quality assurance self-assessment to determine whether the OIA's activities conform with the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and the Fiscal Control and Internal Auditing Act of the State of Illinois. The self-assessment was validated by an independent external party, which concluded in its report issued in March, 2007 that the OIA did not comply with the above mentioned standards.

The report identified significant deficiencies related to the Standards for the Professional Practice of Internal Auditing and to the Fiscal Control and Internal Auditing Act of the State of Illinois.

The Authority, to resolve the deficiencies and achieve a determination that it is in compliance with the above standards, is required to obtain the services of an external validator to perform a subsequent review to clear each deficiency. A final report, containing the external validator's recommendations, is then to be submitted to the State Internal Audit Advisory Board (SIAAB), which is responsible for making the final determination of the status of an internal audit function. The SIAAB issues an opinion that an internal audit function does conform, partially conforms, or does not conform to the above standards.

The Authority is using the services of an external validator and believes that it has adequately addressed a majority of the deficiencies related to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. However, the Authority partially conforms to the IIA Performance Standards for engagement planning and for performing the engagement. In addition, the Authority did not conform to the Fiscal Control and Internal Auditing Act of the State of Illinois in the following areas:

- The Authority's Office of Internal Audit did not have a two-year audit plan approved by the Chief Executive Officer prior to the beginning of the fiscal year.
- Audits of major systems of internal accounting and administrative control were not conducted on a periodic basis so that all major systems were reviewed at least once every two years.

According to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board. The internal audit function should be independent and objective from the engagement client, and engagements should be performed with proficiency and due professional care. The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitor its effectiveness, and should effectively manage the internal audit activity to ensure it adds value to the organization. The internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations, and should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives. Additionally, the chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

According to the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003) (the Act), the two-year audit plan must be approved by the Chief Executive Officer prior to the beginning of the fiscal year. The Act also requires that the Authority's executive director shall ensure that audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years.

Authority management stated that staffing shortages contributed to the initial deficiencies and it is continuing its efforts to address unresolved deficiencies.

Without performing internal audits in accordance with professional standards and without completing audits of all major systems timely in accordance with an approved audit plan, the Authority may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 08-10, 07-10, 06-09)

Recommendation

We recommend the Authority continue its efforts to resolve the deficiencies noted in the Office of Internal Audit and comply with professional standards and State law.

Authority Response

The Authority concurs with the recommendation, and it will ensure compliance with the International Standards for the Practice of Internal Auditing and compliance with the Fiscal Control and Internal Auditing Act of the State of Illinois. The Authority will provide materials to the external validator for submission to the State Internal Audit Advisory Board to confirm the resolution of each finding. A time line for resolution of each step has been agreed to and corrective action is in progress.

Government Auditing Standards

A. Incomplete Documentation for the Risk Ratings Assigned to Program Loans

In the prior fiscal year, the Authority did not document the rationale for the decisions made to support the risk ratings assigned to all program loans under the new loan rating methodology. (Finding Code No. 07-01)

During the current fiscal year, the Authority provided documentation to support the risk ratings assigned to program loans.

B. Inadequate Process for the Establishment of New Loans in the Loan Subsidiary System

In the prior fiscal year, the Authority did not have an adequate process for the establishment of new loans in the loan subsidiary system. (Finding Code No. 07-02, 06-07)

During the current fiscal year, the Authority implemented procedures to properly enter new loans into the loan subsidiary system.

C. Inadequate Process for Calculating and Reporting Loss on Debt Refunding Transaction

In the prior fiscal year, the Authority did not have an adequate process for calculating and reporting the loss on debt refunding transactions. (Finding Code No. 07-04)

During the current fiscal year, the Authority implemented procedures to properly calculate and report the loss on debt refunding transactions.

Federal Compliance

D. Inaccurate Financial Reports

The Illinois Housing Development Authority did not accurately prepare the "HUD 52663, *Requisition for Partial Payment of Annual Contribution*," (HUD 52663) report and the "HUD 52681, *Voucher for Payment of Annual Contributions and Operating Statement*," (HUD 52681) report for the Section 8 Project-Based Cluster (Section 8) Program. (Finding Code No. 07-07)

In the current year, per HUD memo dated February 7, 2007 re: Change in Payment Procedures for Traditional Contract Administrator (TCA) and Assignment of Housing Assistance Payments (HAP) Contracts to Performance Based Contract Administrators (PBCA), the Authority is no longer required to submit HUD Forms 52663 and 52681 for the Section 8 New Construction/Substantial Rehabilitation developments. Said forms are still required to be submitted for the Section 8 Mod Rehabs. Test results indicated that these forms were properly submitted to HUD.

E. Failure to Obtain Suspension and Debarment Certifications

The Illinois Housing Development Authority did not obtain certifications or perform a verification check with the "Excluded Parties List System" (EPLS) that subrecipients were not suspended or debarred from participation in Federal assistance programs for its Section 8 Project-Based Cluster (Section 8) and its Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families (Section 236) programs. (Finding Code No. 07-09, 06-04)

In the current year, the Authority consulted HUD regarding the finding. Per HUD's response, dated July 16, 2008, "The requirement to verify that participants are eligible to participate in HUD programs by checking the EPLS, as stated in OMB Circular A-102, is a pre-award requirement. There does not appear to be a requirement in OMB Circular A-102 to perform annual verification of each participant's eligibility status with EPLS."

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Supplementary Information for State Compliance Purposes

Year Ended June 30, 2008

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Expenditures of Federal Awards
  Notes to Schedule of Expenditures of Federal Awards
  Comparative Schedule of Cash Receipts
  Schedule of Changes in Authority Property
  Furniture, Equipment, and Leasehold Improvements
  Analysis of Significant Account Balances
  Analysis of Significant Variations in Revenue and Significant Variations in Expenses
  Analysis of Administrative Costs
  Description of Cash Accounts
  Description of Investments
  Affordable Housing Trust Fund
  Schedule of Federal and Nonfederal Expenditures

- Analysis of Operations:

  Authority Functions and Planning Program
  Average Number of Employees (Unaudited)
  Emergency Purchases
  Summary Production Data (Unaudited)
  Service Efforts and Accomplishments (Unaudited)
    Multi-family and Single Family Production – Activities Closed or Placed into Service Since Inception (Unaudited)
    Unit Production by Percent of Area Median Income Since Inception (Unaudited)
    Unit Production by Economic Development Region Since Inception (Unaudited)

This information relates to the Authority's proprietary funds unless otherwise noted.

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal grant/program title	CFDA number	Award amount	Due to (from) HUD June 30, 2007	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2008
U.S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	$ -	$ 12,444,879	$ 124,709,518	$ 137,154,397	$ -
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	-	(148,878)	7,744,761	7,612,156	(16,273)
Total Section 8 Project-Based Cluster		-	12,296,001	132,454,279	144,766,553	(16,273)
HOME Investment Partnerships Program	14.239	21,850,617	-	21,850,617	21,850,617	-
Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families	14.103	5,395,775	-	5,395,775	5,395,775	-
National Foreclosure Mitigation Counseling Program	21.000	593,697		593,697	593,697	-
Total		$ 27,840,089	$ 12,296,001	$ 160,294,368	$ 172,606,642	$ (16,273)

See accompanying notes to the schedule of expenditures of federal awards and accompanying independent auditors' report.

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Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

(1) General

The Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Authority. The amount due from the U.S. Department of Housing and Urban Development (HUD) at June 30, 2008 is included in the business-type activities of the Authority's Statement of Net Assets.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting for proprietary funds and modified accrual basis of accounting for governmental funds.

Relation to the Schedule of Expenditures of Federal Awards

Amounts reported in the Schedule of Expenditures of Federal Awards reconcile with the amounts reported in the related federal financial reports. For the HOME program, amounts reported as expenditures include $12,430,547 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2008 is $12,783,000. The amount of HOME loans outstanding at June 30, 2008 is $173,270,716.

Expense/Expenditure

Amounts reported as expenses on this schedule include approximately $4,824,000 in administrative fees retained by the Authority.

Subrecipients

The following amounts were passed through to subrecipients during the year ended June 30, 2008:

CFDA number	Subrecipient Amount
14.182 and 14.856	$ 144,766,553
14.239	21,850,617
14.103	5,395,775
21.000	593,697
	$ 172,606,642

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts
Years Ended June 30, 2008 and 2007

	2008	2007
Administrative Fund:		
Cash received from:		
Interest from program loans	$ 1,599,583	$ 1,256,319
Service fees from program loans	9,660,338	9,960,474
Principal from program loans	7,835,430	2,224,432
	19,095,351	13,441,225
Proceeds from federal assistance programs	133,240,360	147,397,197
Proceeds from program grant	2,900,000	1,666,667
Interest on investments	4,364,033	3,846,027
Interest on escrow deposits	7,752,958	7,766,328
Proceeds from sales and maturities of investment securities	745,452,089	704,629,019
Transfer of funds from mortgage loan program funds	8,273	-
Transfer of funds from single family program funds	10,667	650,137
Other	6,057,725	25,699,423
Total	$ 918,881,456	$ 905,096,023
Mortgage Loan Program Fund – Multi-Family Housing Bonds:		
Cash received from:		
Interest from program loans	$ -	$ 3,901,601
Principal from program loans	-	117,684,420
	-	121,586,021
Proceeds from federal assistance programs	-	63,597
Interest on investments	-	2,616,656
Proceeds from sales and maturities of investment securities	-	219,475,178
Total	$ -	$ 343,741,452
Mortgage Loan Program Fund – Multi-Family Program Bonds:		
Cash received from:		
Interest from program loans	$ 744,841	$ 3,200,221
Principal from program loans	46,612,404	3,599,824
	47,357,245	6,800,045
Interest on investments	1,216,376	1,244,367
Proceeds from sales and maturities of investment securities	108,717,605	11,678,634
Other	953,034	157,752
Total	$ 158,244,260	$ 19,880,798

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Mortgage Loan Program Fund – Housing Bonds:		
Cash received from:		
Interest from program loans	$ 27,713,834	$ 20,342,846
Principal from program loans	51,184,588	7,640,669
	78,898,422	27,983,515
Proceeds from sale of revenue bonds	145,719,750	137,219,148
Proceeds from federal assistance programs	5,070,786	4,959,617
Interest on investments	4,547,903	4,781,893
Proceeds from sales and maturities of investment securities	931,126,212	733,266,741
Transfer of funds from multi-family housing bonds	29,064,293	65,228,046
Other	1,945,930	6,030,783
Total	$ 1,196,373,296	$ 979,469,743
Mortgage Loan Program Fund – Multi-Family Variable Rate Demand Bonds:		
Cash received from:		
Interest from program loans	$ 61,552	$ 189,224
Principal from program loans	2,775,277	68,852
	2,836,829	258,076
Interest on investments	70,817	139,325
Proceeds from sales and maturities of investment securities	8,057,870	3,848,255
Other	-	20,763
Total	$ 10,965,516	$ 4,266,419
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds:		
Cash received from:		
Interest from program loans	$ 937,817	$ 1,376,214
Principal from program loans	9,796,400	-
	10,734,217	1,376,214
Interest on investments	490,615	480,938
Proceeds from sales and maturities of investment securities	40,212,246	19,724,370
Other	41,423,623	5,451,559
Total	$ 92,860,701	$ 27,033,081

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Single Family Program Fund:		
Cash received from:		
Interest from program loans	$ 43,775,651	$ 38,322,239
Principal from program loans	77,033,071	65,703,889
	120,808,722	104,026,128
Interest on investments	12,397,148	11,078,631
Proceeds from sale of revenue bonds	256,040,928	365,925,835
Proceeds from sales and maturities of investment securities	722,345,856	705,790,981
Transfer of funds from administrative funds	2,622,469	2,392,874
Other	154,220	-
Total	$ 1,114,369,343	$ 1,189,214,449
Illinois Affordable Housing Trust Fund:		
Cash received from:		
Interest on investments	$ 2,586,338	$ 3,087,499
Grant from State of Illinois	14,000,521	15,057,894
Total	$ 16,586,859	$ 18,145,393
Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds:		
Cash received from:		
Interest from program loans	$ 1,856,479	$ 2,310,862
Principal from program loans	7,032,792	8,862,490
	8,889,271	11,173,352
Interest on investments	1,816,220	1,508,318
Transfer of fund from Illinois Affordable Housing Trust Fund	5,200,000	5,200,000
Proceeds from sales and maturities of investment securities	124,081,292	57,190,029
Other	1,329	2,313
Total	$ 139,988,112	$ 75,074,012

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
HOME Program Fund:		
Cash received from:		
Interest from program loans	$ 1,540,965	$ 1,461,969
Principal from program loans	1,492,478	1,260,734
	3,033,443	2,722,703
Interest on investments	82,091	52,835
Federal HOME Funds	21,850,617	29,019,515
Total	$ 24,966,151	$ 31,795,053
Mortgage Loan Program Fund – Housing Finance Bonds:		
Cash received from:		
Interest from program loans	$ 259,235	$ 851,632
Principal from program loans	13,394,034	239,482
	13,653,269	1,091,114
Interest on investments	38,382	63,033
Proceeds from sales and maturities of investment securities	1,474,036	1,108,233
Other	-	1,422
Total	$ 15,165,687	$ 2,263,802
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):		
Cash received from:		
Interest from program loans	$ 533,516	$ 1,192,135
Principal from program loans	10,408	236,516
	543,924	1,428,651
Interest on investments	36,049	47,614
Proceeds from sales and maturities of investment securities	5,232,449	4,549,963
Other	-	17,890
Total	$ 5,812,422	$ 6,044,118

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years ended June 30, 2008 and 2007

	2008	2007
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):		
Cash received from:		
Interest from program loans	$ 264,695	$ 267,042
Principal from program loans	47,381	45,030
	312,076	312,072
Interest on investments	7,102	9,573
Proceeds from sales and maturities of investment securities	936,445	495,820
Other	-	3,417
Total	$ 1,255,623	$ 820,882
Rental Housing Support Program Fund:		
Cash received from:		
Grant from State of Illinois	$ 10,973,926	$ 7,083,890

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Schedule of Changes in Authority Property
Year ended June 30, 2008

Description	Balance at June 30, 2007	Additions	Depreciation and amortization expense	Retirements	Balance at June 30, 2008
Real estate	$ 40,436,536	$ 384,487	$ -	$ -	$ 40,821,023
Accumulated depreciation – real estate	(11,011,000)	-	(800,000)	-	(11,811,000)
Furniture and equipment	123,270	-	-	(1,295)	121,975
Accumulated depreciation – furniture and equipment	(112,677)	-	(17,437)	1,057	(129,057)
Computer equipment	255,689	-	-	(48,232)	207,457
Accumulated depreciation – computer equipment	(241,793)	-	(5,054)	48,232	(198,615)
Computer software	1,560,605	88,225	-	(12,532)	1,636,298
Amortized computer software	(1,381,562)	-	(120,637)	12,532	(1,489,667)
Leasehold improvements	1,805,108	-	-	-	1,805,108
Amortized leasehold improvements	(1,805,108)	-	-	-	(1,805,108)
	$ 29,629,068	$ 472,712	$ (943,128)	$ (238)	$ 29,158,414

See accompanying independent accountants' report.

Furniture, Equipment, and Leasehold Improvements

The Authority leases office facilities under a lease which extends through July 31, 2016, which provides the Authority two successive five-year options to extend the lease beyond that date and, during certain time periods, to lease additional office facilities.

Capital assets of the Authority's Administrative Fund consist of investments in furniture, fixtures, and equipment, computer hardware, and computer software. For such investments made beginning and after July 1, 2002, capital assets are defined by the Authority as assets with an initial, individual cost of $5,000 or more and are depreciated or amortized on a straight-line basis over a period of five to ten years, depending on the nature of the asset. The limitation amount in prior fiscal years was $1,000. Purchases of furniture and equipment in the amount of $13,036 were expensed during fiscal year 2008.

During the year ended June 30, 2008, the Authority capitalized $88,225 of computer software.

Capital Assets in the Mortgage Loan Program Fund represent the net carrying value of Lakeshore Plaza (ML-181), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990. The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property. During the year ended June 30, 2008, the Authority recorded capital expenditures of $384,487 related to the ML-181.

Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds decreased approximately $14.4 million from June 30, 2007 to $721.0 million at June 30, 2008. This decrease is primarily a net result of the following factors:

(a) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by $241.0 million.

(b) Proceeds of bond issuances exceeded payments of bond principal by $57.5 million.

(c) Interest received on investments and transfers in (net) totaled $30.2 million.

(d) Other receipts totaled $4.9 million.

(e) Payments for loan originations totaled $341.3 million.

(f) Payments of amounts held on behalf of others were $5.8 million

Net program loans receivable of the Authority's proprietary funds increased approximately $126.4 million during fiscal year 2008. This increase is attributable primarily to increases in the Authority's Single Family Program Fund ($91.9 million) and the inclusion of Mortgage Participation Certificate Program Loans acquired by the Administrative Funds ($33.9 million). The increase in program loans receivable of the Single Family Program was the fourth straight year-to-year increase following a three year period of decreases caused by declining interest rates, which resulted in loan principal payments and loan prepayments exceeding originations. Interest rate increases over the past several years have resulted in a slowing of the prepayment rate to the extent that program loans receivable are again increasing. In addition, the fiscal year 2008 increase in program loan receivables was favorably impacted by increased Authority marketing efforts.

Net assets of the Authority's governmental funds increased $7.8 million from the June 30, 2007 balance from an increase in the HOME program, due to the conversion of grant revenues to program loans receivable. No net assets of the Authority's other two governmental activities are recorded on the Authority's financial statements. The equity of the Affordable Housing Trust Fund (Housing Program) is recorded as due to the State of Illinois. All revenues of the Rental Housing Support Program are ultimately disbursed as grant or administrative expenses, and therefore no equity is recorded on the Authority's financial statements.

Total program loans receivable of the Authority's governmental funds increased by $34.7 million due mainly to continued strong demand in both the Housing Program and the HOME program for loans to support low and very low income housing. Cash and investments increased by $5.6 million, as the Authority was holding slightly higher amounts pending disbursement of funds for loans and grants to Housing Program recipients plus $1.5 million of Rental Housing Support Program Funds pending their disbursements as grants.

At June 30, 2008, total outstanding bonds and notes payable was approximately $57.5 million above the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2008) occurred during fiscal year 2008:

		Balance June 30, 2008
		(In millions)
Housing Bonds, 2007 Series A	$	6.2
Housing Bonds, 2007 Series C		9.6
Housing Bonds, 2007 Series D		46.5
Housing Bonds, 2007 Series E		9.3
Housing Bonds, 2007 Series F		6.8
Housing Bonds, 2007 Series G		5.6
Housing Bonds, 2008 Series A		14.2
Housing Bonds, 2008 Series B		37.9
Housing Bonds, 2008 Series C		5.6
Homeowner Mortgage Revenue Bonds, 2007 Series D		64.9
Homeowner Mortgage Revenue Bonds, 2007 Series H		61.0
Homeowner Mortgage Revenue Bonds, 2007 Series H, Remarketed 1/30/08		56.0
Homeowner Mortgage Revenue Bonds, 2008 Series A		10.7
Administrative Fund, Term Loan		3.0

The Authority redeemed $182.2 million of various Single Family Program Fund Bonds and $165.0 million of Mortgage Loan Program Bonds during the fiscal year.

The proceeds of the issuance of the Housing Bonds, 2007 Series D were used, in part, to defease, until their November 29, 2007 redemption date, the Authority's Multi-Family Program Bonds, Series 1, 3 and 5 and the Authority's Housing Bonds, 2006 Series K. The differences between the reacquisition price and the net carrying amount of the refunded bonds ($1.4 million) have been deferred and are being amortized as a component of interest expense over the remaining life of the refunded bonds.

As of June 30, 2008, the Authority had the following debt outstanding (net of unamortized discount and deferred loss on refunding, thereon):

	Number of outstanding issues	Balance June 30, 2008
		(In millions)
Housing Bonds	33	$ 504.7
Multifamily Housing Revenue Bonds (Marywood)	1	15.5
Multifamily Bonds (Turnberry II)	1	5.2
Affordable Housing Program Trust Fund Bonds	2	72.0
Total Mortgage Loan Program Fund	37	597.4
Residential Mortgage Revenue Bonds	7	0.3
Homeowner Mortgage Revenue Bonds	41	1,042.7
Total Single Family Program Fund	48	1,043.0
Administrative Fund	1	4.6
Total Proprietary Funds	86	$ 1,645.0

Deposits held in escrow increased approximately $7.1 million, due to increases in funding levels and the addition of escrow accounts for originated loans. Capital assets decreased approximately $0.5 million as depreciation more than offset purchases. Net assets designated by resolution of the Authority ($84.4 million) were $0.6 million lower than the amount designated as of June 30, 2007, as the Members of the Authority decreased by $9.0 million the designation to pay possible losses arising in the Multi-Family Bond Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans, by $1.0 million the designation to pay expenses for planned technology program enhancements and by $0.6 million the designation to the Housing Partnership Program, and increased by $10.0 million the designation to provide funds and reserves to support the Mortgage Participation Certificate Program, including the purchase of loans within the Program.

Analysis of Significant Variations in Revenue and Significant Variations in Expenses

Proprietary Funds

Interest earned on program loans increased by $5.4 million, or 7.4% due to increases within the Authority's Single Family Program Fund ($5.6 million), due to increases in loans outstanding, and the Administrative Fund ($0.4 million), partially offset by a decrease ($0.6 million) within the Mortgage Loan Program Fund. Loans outstanding as of June 30, 2008 in the Single Family were $91.9 million above the prior year-end amounts. Investment income decreased $2.7 million, or 10.4%. Investment income before the adjustment of investments to fair value decreased $5.0 million from the prior year primarily due to lower market interest rates. The adjustment of investments to fair value increased investment income by $1.7 million in fiscal year 2008, whereas in fiscal year 2007 the impact was to decrease investment income $0.6 million. The decreases in investment income were primarily from the Mortgage Loan Program Fund.

Interest expense increased $0.5 million, or 0.7% due to increased expenses within the Single Family Program Fund ($3.3 million, due to $73.9 million higher debt outstanding at fiscal year end), partially offset by decreased expenses within the Mortgage Loan Program Fund ($2.9 million), as the Authority refinanced debt at lower rates and debt outstanding at fiscal year end was $19.3 million lower.

Operating expenses, other than interest expense and federal assistance programs, increased approximately $12.4 million. The major components of the change were:

a. A $.6 million (5.2%) increase in salaries and benefits primarily due to increased staffing levels, partially offset by higher allocations of these costs to governmental programs, the administration for which the Authority is reimbursed. Gross salary and benefit expenses (before allocations and deferrals) increased $.8 million or 5.8%. The average number of full-time equivalent employees for fiscal years 2005 through 2008 is listed in the Analysis of Operations Average Number of Employees section of this report.

b. A $.8 million (41.9%) decrease in professional fees primarily due to the prior year expense recognition of the non-reimbursed portion of prior years' homebuyer counseling costs ($0.6 million), and decreased fiscal year 2008 legal fees and expenses ($.3 million).

c. A $.1 million (1.2%) decrease in general and administrative expenses due primarily to lower Administrative Fund expenses ($0.2 million, primarily rent expense) partially offset by increased expenses ($0.1 million) within the Single Family Program Fund.

d. A $.4 million (18.1%) decrease in financing costs due to decreased expenses within the Authority's Administrative Fund and Mortgage Loan Program Fund, partially offset by increased costs with the Single Family Program Fund, due to increased bond activities within the program.

e. A $1.9 million increase in the allowance for estimated losses on program loans receivable and mortgage participation certificate program compared to reversals of $11.2 million the prior year. During fiscal year 2007, the Authority adopted a revised loan loss rating policy, which included lower allowance for estimated loss provision percentages assigned for certain grades of loans, based primarily upon the Authority's experience with such loans. The implementation of the policy resulted in a change of estimate of the Authority's allowances for estimated losses on program loans receivable.

Governmental Funds

Total revenues of the Authority's governmental funds decreased by $4.7 million from the prior year. Federal revenues of the HOME Program were $7.2 million below the prior year, due mainly to lower loan disbursements. At June 30, 2008, loan and grant commitments authorized by the Members of the Authority for the HOME program totaled $25.0 million.

Total expenditures of the Authority's governmental funds increased by $6.1 million from the prior year, due to increased Rental Housing Support Program expenses ($3.9 million), the initial expenses of which occurred in the previous fiscal year, and increased HOME Program expenditures ($3.8 million), primarily from provisions for estimated losses on program loans receivable of $1.6 million in fiscal year 2008 compared to reversals of $1.1 million in the prior fiscal year. In addition, HOME Program grant expenditures increased $1.0 million.

Analysis of Administrative Costs

The Authority's administrative costs include the following employee benefits:

Description	2008	2007	2006
Employee holiday reception	$ 4,367	$ -	$ 12,061
Employee retirement, recognition parties	3,650	9,532	9,048
	$ 8,017	$ 9,532	$ 21,109

The Authority's current policy allows for amounts to be spent on food and gifts to acknowledge the tenure of individuals, beginning with a minimum of ten years of service.

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Description of Cash Accounts
Year ended June 30, 2008

The Authority's cash and cash equivalents for proprietary funds at June 30, 2008 were maintained in bank accounts, as follows:

Administrative Fund:		
Bank of New York	$	2,338,246
The Northern Trust Company – HUD Section 8 Depository		2,560
LaSalle Bank		164,526
Chase Bank		5,361
Total Administrative Fund		2,510,693
Mortgage Loan Program Fund:		
Housing Bonds:		
Bank of New York		366,053
Multi-Family Housing Revenue Bonds (Marywood):		
Bank of New York		3,657
Multifamily Bonds (Turnberry):		
Bank of New York		895
Affordable Housing Program Trust Fund Bonds:		
Bank of New York		34,535
Total Mortgage Loan Program Fund		405,140
Single Family Program Fund:		
Homeowner Mortgage Revenue Bonds:		
Bank of New York		6,755,040
Residential Mortgage Revenue Bonds:		
Bank of New York		250
Total Single Family Program Fund		6,755,290
Total Proprietary Funds	$	9,671,123

See accompanying independent accountants' report.

Description of Investments

The carrying value of investments for the Authority's governmental and proprietary funds at June 30, 2008 are delineated by type, as follows:

Type	Carrying value
Demand Repurchase Agreements	$ 55,162,378
United States Agency Obligations	650,883,349
United States Government Obligations	64,369,188
Municipal Obligations and Other	2,399,143
	$ 772,814,058

Affordable Housing Trust Fund

The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated from the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. At June 30, 2008, total funds held were $61,849,634, which consisted of cash and investments held by Authority escrow agents for pending disbursement of loans and grants.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Federal and Nonfederal Expenditures
Year Ended June 30, 2008

	Amount	Percent
Federal expenditures (A)	$ 172,606,642	58%
Nonfederal funds	126,220,760	42%
Total expenditures	298,827,402	100%
Less: Amount representing loans and payments to HUD	(18,595,582)	
Total expenditures (B)	$ 280,231,820	

Source:

(A) Schedule of Expenditures of Federal Awards
(B) Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and the Statement of Activities - Proprietary Funds, for year ended June 30, 2008.

Authority Functions and Planning Program

The Authority is governed by a bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate. Ms. DeShana L. Forney is the Executive Director of the Authority. In addition, the Authority employs a staff of approximately 200 persons, including persons who have experience and responsibilities in the areas of finance, accounting, mortgage loan underwriting, housing development, market analysis, law, and housing marketing and management.

The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the State of Illinois. This goal is currently accomplished through several programs. *The Mortgage Loan Program and The Affordable Housing Bond Program* (initiated in fiscal year 1995) provides mortgage financing at rates lower than those available from commercial lenders for housing developments meeting Authority criteria. Through *The Homeowner Mortgage Purchase Program*, the Authority purchases mortgage loans on which it provides below market rate financing from certain institutions which have made home purchase loans available to eligible borrowers. The Authority also provides technical and marketing assistance to sponsors of housing for occupancy by persons or families of low to moderate income, serves as the state administrator for Federal Low Income Housing Tax Credits (primarily outside of Chicago) and, through its Partnership and Financial Assistance Factor (FAF) Earnings Programs, makes loans from its Administrative Funds at below market rates to such groups.

The Authority also is designated the administrator of the *Illinois Affordable Housing Program*. The program is funded by the Illinois Affordable Housing Trust Fund, with funds derived from a portion of the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. In accordance with state statute, the Authority directs funds to make grants, low or no interest mortgages, or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, ensure, and retain affordable single-family and multi-family housing for low and very low income households.

In addition, the Authority has been designated as the statewide administrator of the Federal HOME program. Under this program, $355.1 million and $21.8 million for federal fiscal years 1992 through 2007 and 2008, respectively, have been allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

A federal tax credit program created by the Tax Reform Act of 1986, the Low Income Housing Tax Credit Program, was designed to encourage the production of affordable housing, providing an income tax credit to qualifying investors of low-income housing. Project developers typically syndicate these credits up front at a discounted rate to raise cash equity to help finance developments. The limited partner tax credit investor pays a fee in exchange for dollar-for-dollar reduction in federal tax liability. The Authority is the State-level Tax Credit administrator, and the City of Chicago serves in the same capacity as a local tax credit administrator for its allowed home rule proportional allotment of credits.

In fiscal year 1992, the Authority formed the Office of Housing Coordination Services, which coordinates housing policy development and housing programs, initiates and responds to public input on housing programs, and acts as a housing information resource for nonprofit organizations, local governments, state agencies, and others.

In early fiscal year 2002 the Illinois General Assembly created the Illinois Affordable Housing Tax Credit Program, which was designed to assist nonprofit organizations to solicit corporate and other donations for assisting with a variety of affordable housing projects, providing the donating entity with a 50% state income tax credit for every dollar donated. The Authority is the administrator of this program, which began during fiscal year 2002.

Executive Order 2003-18, issued in September of 2003, called for the creation of a State Annual Comprehensive Housing Plan to be created by a Governor appointed Housing Task Force, of which the Authority's Executive Director was designated as Chair. The first plan, Building for Success, was issued in January 2005, with annual plans published in each subsequent year, as well as annual progress reports. In June 2006, the General Assembly codified the Governor's Executive Order into law with the passage of the Comprehensive Housing Planning Act, which extended the Housing Task Force and its successful planning efforts until 2016.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investment securities, and other administration fees. No State appropriations are received by the Authority and no State tax dollars are provided directly to the Authority, except as a partial reimbursement of expenses related to the administration of the Affordable Housing Trust Fund.

The Authority is generally able to make loans at rates lower than those of commercial lenders because interest on its qualified bonds and notes are tax-exempt. Except for the Affordable Housing Bond Program, which receives funds to use in support of the Program Bonds, the interest rates charged by the Authority on loans are directly related to interest paid by the Authority on its bonds and notes. The Authority obtains favorable interest rates on its debt because the Authority has consistently received high Moody's and Standard & Poor's ratings on such debt. During fiscal year 2008, the Authority's Issuer Credit Ratings remained at A+/A1/A+ by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, respectively. No bonds or notes of the Authority are debts of the State of Illinois. With respect to certain outstanding debt, in the event the Authority determines at any time that its moneys are insufficient to pay principal of and interest on its bonds in the next State fiscal period, the Chairman of the Authority shall certify the deficiency to the Governor, who shall include the amount in the State budget. However, payment of any amounts by the State on behalf of the Authority is subject to appropriation by the General Assembly. Accordingly, the Illinois Housing Development Act does not create a legally enforceable obligation on the part of the State for the payment of such moneys nor does it create a debt enforceable against the State.

Some developments financed by the Authority are eligible for the federal subsidies for interest and/or rents. In the past, the Authority obtained commitments for subsidies from the U.S. Department of Housing and Urban Development (HUD) and then solicited applications for loans from prospective developers. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development and the development's compliance with applicable federal, state, and local laws and rules and regulations. All commitments are authorized by the Members of the Authority.

New Program Development

In December, 1983, the United States Congress officially terminated new production of housing under the Section 8 Housing Payments Program. With the elimination of these subsidies, the Authority's ability to provide mortgage financing rates at lower than those of commercial lenders was reduced. The elimination of federal subsidies has also driven up interest rates on multi-family housing bonds, which do not provide financial security similar to that afforded by the Section 8 program. The advantage of providing lower financing rates was further restricted by the Tax Reform Act of 1986, which included provisions for statewide limits on bond issuance. It has therefore become necessary to devise other types of credit enhancements, such as insurance or other surety protection, to ensure that the Authority is able to issue its bonds and notes at the lowest possible interest rates.

In June 1994, the Authority entered into a Risk Sharing Agreement (Agreement) with HUD, which permits the Authority to participate in HUD's Pilot Risk Sharing Program, which has since been converted to a permanent program. Under this program, HUD will insure certain mortgage loans on multi-family housing developments (Risk Sharing Loans). HUD has authorized the Authority to make an unlimited amount of loans for such developments. Under the Agreement, the Authority underwrites Risk Sharing Loans following its underwriting guidelines. HUD insures the Risk Sharing Loans and bears 10% to 90% of the loss, as elected by the Authority, in the event of a foreclosure. The Authority bears the remainder of the risk.

The Authority has entered into thirty-nine Risk Sharing Loans totaling $220,975,699 and elected that HUD assume 10% to 90% of the loss. Except for eleven loans totaling $67,412,699 financed through the issuance of the Authority's Housing Bonds and one loan in the amount of $15,460,000 financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests to outside parties. The program's service and insurance fee incomes are recorded in the Administrative and Other Funds of the Authority.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation (Ambac) under which Ambac will insure mortgage loans (Ambac Loans) on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. The agreement allows (or provides) the Authority to share its risk with Ambac on the aggregate loan portfolio after the satisfaction of certain requirements and thresholds. As of June 30, 2008, the Authority has entered into eighteen Ambac Loans totaling $156,562,200. Except for one loan in the amount of $5,320,000 financed through the issuance of the Authority's Multifamily Bonds (Turnberry), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

The Participation and Servicing Agreements for ten of the above loans contain a provision that, if Standard and Poor's Rating Services and Fitch IBCA, or their successors, both lower the general obligation rating of Ambac to a level below AAA and Moody's Investor Service, Inc. or its successor also lowers the general obligation rating of Ambac to a level below Aaa, and if the Authority is unable within sixty business days to find a substitute guarantor of the payments due under the Participation Interest with a general obligation rating of AAA or Aaa by any nationally recognized rating agency maintaining a general obligation rating on such insurer, or the Participant has the right to require the repurchase of the Mortgage Loan, then the Participant may elect to require the Authority to repurchase the Ownership Interest from the Participant within ten business days.

As of June 30, 2008 the above three rating services had lowered their general obligation ratings of Ambac to below the prescribed levels. The Authority has not provided a substitute guarantor, and the holder of the participation interests of four of the above loans, with outstanding balances totaling approximately $33.9 million, has determined that it will exercise its right to require the repurchase of the Mortgage Loans. The owner of the participation interests in the remaining six loans, the outstanding principal balances of which totaled approximately $82.5 million as of June 30, 2008, has requested, and the Authority has granted, an extension of the sixty day time period for the above actions or determinations to be made. The remaining seven loans for which outside parties hold 100% participation interests do not have a re-purchase provision.

The Authority has recorded as of June 30, 2008 a program loan receivable of $33.9 million and a similar short term liability to purchase the four loans that the Participant elected to require the Authority to repurchase. The remaining loans, except for the four loans to be repurchased and the loan financed through the issuance of the Authority's Multi-Family Bonds (Turnberry) are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

As a result of the July 2005 enactment of the Rental Housing Support Program Act, the Authority is the administrator of the Rental Housing Support Program and will award funds to local administering agencies, which will contract with local landlords to make rental units affordable to households who earn less than 30% of the area median income. The program is funded by a surcharge for the recordation of any real estate-related document. The funds are appropriated to the Illinois Department of

Revenue by the General Assembly. The Program's fiscal year 2008 activities, as administered by the Authority, consisted of the pass-through of grants to one municipality.

The general obligation ratings of a number of financial institutions providing insurance, investment guarantees or other assurance services to the Authority declined over the past fiscal year, as a result of the economic disruptions occurring within the mortgage and other credit markets. In some cases, the declines have resulted in the financial institutions no longer being able to meet bond resolution or other contractual requirements for the procurement of new contracts, thus limiting the Authority's supply for services.

Although substantially all mortgage loans funded by the Homeowner Mortgage Revenue Bonds were covered by pool insurance as of June 30, 2008, due to the ratings decreases noted above, accompanied by rate increases of insurers that continue to meet the Authority ratings criteria, the Authority is severely limited in its capacity to originate such loans in a cost effective manner and is developing programs in which it would originate and securitize such loans backed by government sponsored enterprise guarantees.

Planning Program

The Authority's planning program is designed to identify and accept those developments that best achieve the Authority's goals of providing low and moderate economically integrated housing throughout the State while maintaining the financial viability of the Authority.

The Authority utilizes internal planning primarily through its annual budgeting process, in which Authority goals for the ensuing fiscal year are established and departmental goals and expense budgets are developed in support of the established Authority goals. In developing the goals and the departmental support level to achieve them, consideration is given to the availability of staff and other resources. To effectively measure achievement of the goals and objectives, the Authority monitors on an ongoing basis the units of housing produced through its programs. The Authority's plans are geared to its authorizing legislation, the needs of Illinois citizens and goals as identified in the State Annual Comprehensive Housing Plan. The Authority's programs are being implemented as planned in coordination with the goals and objectives of other governmental entities providing similar services.

Average Number of Employees (Unaudited)

	2008	2007	2006	2005
Financial and computer services	50	49	48	47
Human resources, administration, and legal	26	26	26	26
Director's office and housing programs	121	114	115	120
Total	197	189	189	193

The average number of full-time employees of 197 in fiscal year 2008 was 4.2% above the fiscal year 2007 average primarily from staffing increases in the Authority's Multi-Family Financing and Asset Management departments.

Emergency Purchases

The Authority had three emergency purchases during the year ended June 30, 2008. The emergency purchase, in the amount of $332,030, was awarded to Financial Guaranty Insurance Company, and the purchase was to procure bond insurance for five bond issuances totaling $100,000,000. The emergency purchase, in the amount of $212,500, was awarded to cfx Incorporated to serve as a quantitative services analyst. The emergency purchase, in the amount of $14,329, was awarded to Financial Security Assurance for bond insurance.

Summary Production Data (Unaudited)

Unit production for fiscal year 2008 was 12,060 units, and total production since Authority inception was 190,825 units.

Over 80% of the Authority's production since inception has been to households with 80% or below of the area median income.

Service Efforts and Accomplishments (Unaudited)

The Authority has included key statistical and programmatic data to reflect its service efforts and accomplishments and activity measures.

The data presented in the first table (Multi-Family and Single Family Production – Activities Closed or Placed into Service) represents initially closed multi-family loans, purchased single family Mortgage Revenue Bond (MRB) loans, issued Mortgage Credit Certificates (MCC), and low income housing tax credits (LIHTC) units which have been placed in service since the inception of the programs. The multi-family data includes projects that received permanent, construction, or conduit financing, as well as projects where the Authority provides only contract administration. This data does not include multi-family or single family loans that are currently "in process" or multi-family developments recently allocated in the case of Tax Credits.

The data presented in the second table (Unit Production by Percent of Area Median Income (AMI)) provides a breakdown of unit production by targeted AMI since the inception of the programs.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Analysis of Operations
Service Efforts and Accomplishments
Multi-Family and Single Family Production – Activities Closed or Placed into Service Since Inception
June 30, 2008
(Unaudited)

	Active		No Longer Active (3)		Total	
Portfolio	Developments	Units	Developments	Units	Developments	Units
Multi-family Programs	1,230	94,635	269	17,738	1,499	112,373
Single Family Programs (1)	950	23,345	4	250	954	23,595
MCC & MRB (2)	n/a	15,695	n/a	39,162	n/a	54,857
Totals	2,180	133,675	273	57,150	2,453	190,825

(1) Includes HOME, Housing Trust Fund, and State Housing Tax Credit programs
(2) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond
(3) No longer being monitored for either loan servicing or housing program participation

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Analysis of Operations
Service Efforts and Accomplishments
Unit Production by Percent of Area Median Income Since Inception
June 30, 2008
(Unaudited)

Percent of Area Median Income	Multi-Family and Single Family Programs	MCC and MRB (1) (2)	Total
Less than 30%	2,174	5,359	7,533
31% – 50%	50,430	6,175	56,605
51% – 80%	70,422	21,633	92,055
81% – 100%	n/a	12,614	12,614
101% – 120%	27	5,788	5,815
Greater than 121% or Market	12,915	3,288	16,203
Totals	135,968	54,857	190,825

(1) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond

(2) HUD income limits were used as the standard. Due to the inconsistency between IRS income limits and HUD income limits, the data for the MCC and MRB portions are close approximations.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Analysis of Operations
Service Efforts and Accomplishments
Unit Production by Economic Development Region Since Inception
June 30, 2008
(Unaudited)

	Programs			
Region (1)	Multi-Family	Single Family	MCC & MRB (2)	Total Developments
Central	5,380	995	3,697	10,072
East Central	3,146	578	2,324	6,048
North Central	5,543	1,746	4,152	11,441
Northeast	77,579	6,186	28,097	111,862
Northern Stateline	2,749	572	3,317	6,638
Northwest	5,373	1,299	3,440	10,112
Southeastern	1,845	660	1,398	3,903
Southern	2,472	4,149	1,867	8,488
Southwestern	3,635	2,686	4,224	10,545
West Central	1,962	1,001	2,134	5,097
Statewide	2,689	3,723	207	6,619
Total	112,373	23,595	54,857	190,825

(1) Counties included in each region are as follows:
Central – Cass, Christian, Greene, Logan, Macon, Menard, Montgomery, Morgan, Moultrie, Sangamon, Scott, and Shelby (Metro areas Decatur and Springfield)
East Central – Champaign, Douglas, Ford, Iroquois, Platt, and Vermilion (Metro area Champaign)
North Central – Dewitt, Fulton, Livingston, Marshall, Mason, McLean, Peoria, Seark, Tazewell, and Woodford (Metro areas Bloomington Normal and Peoria)
Northeast – Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry, and Will (Metro areas Chicago, DeKalb, and Kankakee)
Northern Stateline – Boone, Ogle, Stephenson, and Winnebago (Metro area Rockford)
Northwest – Bueau, Carroll, Henry, Jo Daviess, La Salle, Lee, Mercer, Rock Island, Putnam, and Whiteside (Metro area Rock Island)
Southeastern – Clark, Clay, Coles, Crawford, Cumberland, Edgar, Effingham, Fayette, Jasper Lawrence, Marion, and Richland
Southern – Alexander, Edwards, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jefferson, Johnson, Massac, Perry, Pope, Pulaski, Saline Union, Wabash, Wayne, White, and Williamson
Southwestern – Bond, Calhoun, Clinton, Jersey, Madison, Macoupin, Monroe, Randolph, St. Clair, and Washington (Metro area East St. Louis)
West Central – Adams, Brown, Hancock, Henderson, Knox, McDonough, Pike, Schuyler, and Warren

(2) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond