



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Single Audit and State Compliance Examination
 For the Year Ended June 30, 2016

Release Date: March 16, 2017

| FINDINGS THIS AUDIT: 8 | | | | AGING SCHEDULE OF REPEATED FINDINGS | | | |
|-------------------------|------------|---------------|--------------|-------------------------------------|-------------------|-------------------|-------------------|
| | <u>New</u> | <u>Repeat</u> | <u>Total</u> | <u>Repeated Since</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> |
| Category 1: | 0 | 3 | 3 | 2015 | 16-1, 16-5 | | |
| Category 2: | 3 | 2 | 5 | 2014 | 16-2 | | |
| Category 3: | 0 | 0 | 0 | 2013 | | 16-6 | |
| TOTAL | 3 | 5 | 8 | 2011 | | 16-7 | |
| FINDINGS LAST AUDIT: 14 | | | | | | | |

INTRODUCTION

This digest covers our Single Audit and Compliance Examination of the Illinois Housing Development Authority (Authority) for the year ended June 30, 2016. A separate Financial Audit as of and for the year ended June 30, 2016, was previously released on December 22, 2016. In total, this report contains 8 findings, four of which were reported in the Financial Audit.

SYNOPSIS

- (16-5) The Authority did not properly report expenditures on the Schedule of Expenditures of Federal Awards.
- (16-6) The Authority did not follow its established policies and procedures for monitoring subrecipients of the Home Investment Partnerships program.
- (16-7) The Authority did not follow its established policies and procedures for monitoring subrecipients (for-profit developments) of the Section 8 Project-Based program.

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

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

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY
COMPLIANCE EXAMINATION AND SINGLE AUDIT
For the Year Ended June 30, 2016**

| EXPENDITURE STATISTICS | 2016 | 2015 |
|--|-------------------------|-------------------------|
| Debt outstanding (net of unamortized discount) | | |
| Housing Bonds..... | \$ 338,900,000 | \$ 369,300,000 |
| Multifamily Initiative Bonds..... | 146,300,000 | 150,300,000 |
| Affordable Housing Program Trust Fund Bonds..... | 14,800,000 | 18,100,000 |
| Residential Mortgage Revenue Bonds..... | 100,000 | 100,000 |
| Homeowner Mortgage Revenue Bonds..... | 302,700,000 | 337,800,000 |
| Housing Revenue Bonds..... | 152,500,000 | 174,200,000 |
| Revenue Bonds..... | 72,800,000 | - |
| Administrative Funds..... | 52,300,000 | 34,100,000 |
| Total..... | <u>\$ 1,080,400,000</u> | <u>\$ 1,083,900,000</u> |
| Cash and Cash equivalents (proprietary funds)..... | \$ 282,890,983 | \$ 537,279,257 |
| Investments (all funds)..... | \$ 750,307,771 | \$ 410,509,839 |
| SUPPLEMENTARY INFORMATION | 2016 | 2015 |
| Expenditures of Federal Awards | | |
| Section 8 Project-Based Cluster..... | \$ 107,151,397 | \$ 113,777,801 |
| HOME Investment Partnerships Program..... | 266,456,640 | 261,331,980 |
| Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families Program..... | 1,197,963 | 2,367,781 |
| Neighborhood Stabilization Program..... | 606,474 | 876,477 |
| Community Development Block Grant..... | 1,513,226 | 1,409,143 |
| National Foreclosure Mitigation Counseling Program..... | 1,455,120 | 1,634,767 |
| Total..... | <u>\$ 378,380,820</u> | <u>\$ 381,397,949</u> |
| Average Number of Employees (unaudited)..... | 238 | 240 |
| SELECTED ACTIVITY MEASURES | 2016 | 2015 |
| Total Number of Housing Bond Issues Outstanding..... | 68 | 66 |
| Housing Units Produced Since Inception (unaudited)..... | 280,166 | 263,577 |
| EXECUTIVE DIRECTOR | | |
| During Examination Period: Mary R. Kenney (thru 9-18-15), Brian E. Zises (Acting) (9-19-15 thru 1-15-16) Vacant (1-16-16 to 2-21-16), Audra A. Hamernik (2-22-16 to present) Current: Audra Hamernik | | |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE REPORTING OF FEDERAL EXPENDITURES ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Expenditures were not properly reported on the Schedule of Expenditures of Federal Awards (SEFA) provided by the Authority for our major program determination. Specifically, we noted the total expenditures and amounts passed through to subrecipients were reported incorrectly as follows:

Reported amounts did not agree with actual amounts on the Schedule

| Program | CFDA Number | Item | Reported Amount | Actual Amount | Understatement |
|----------------------------|--------------------|---|------------------------|----------------------|-----------------------|
| NFMC | 21.000 | Total Expenditures | \$1,311,150 | \$1,455,120 | \$143,970 |
| Section 8 New Construction | 14.182 | Amounts passed through to subrecipients | 74,856,625 | 96,284,714 | 21,428,089 |
| Section 8 Mod Rehab | 14.856 | Amounts passed through to subrecipients | 5,605,846 | 5,871,220 | 265,374 |

Failure to accurately report federal expenditures and amounts passed through to subrecipients prohibits the completion of an audit in accordance with the Uniform Guidance, which may result in the suspension of federal funding. (Finding 5, pages 28-30)

We recommend the Authority review its contract procedures to ensure the SEFA is prepared accurately and in accordance with the Uniform Guidance.

Authority agrees with the auditors

Authority officials concurred with the recommendation.

NEED TO FOLLOW ESTABLISHED SUBRECIPIENT MONITORING PROCEDURES FOR THE HOME INVESTMENT PARTNERSHIPS PROGRAM

Monitoring procedures not followed

The Authority did not follow its established policies and procedures for monitoring subrecipients of the Home Investment Partnership (Home) Program.

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipient compliance with regulations applicable to the Home program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient to respond to each finding by providing a written response.

During our testwork over on-site review procedures performed for 25 subrecipients (with expenditures of \$2,107,497) of the Home program, we noted the Authority did not follow its established on-site monitoring procedures as follows:

Management decision letters were not issued timely

- The Authority did not issue a management decision letter within 45 days of communicating the findings from the on-site review for one grant subrecipient (with expenditures of \$201,990). The delay in communicating the findings from the on-site review was 40 days.
- The Authority did not close out the on-site review files for two grant subrecipients (with expenditures totaling \$263,948) within 90 days. Delays in closing out the on-site reviews were 34 and 67 days.

Close out reviews were not completed timely

Additionally, the Authority's policies and procedures over HOME program monitoring do not include guidelines for timely receipt of responses to monitoring reviews and file close out. (Finding 6, pages 31-33). **This finding has been repeated since 2013.**

We recommended the Authority ensure on-site monitoring files are closed and management decision letters are issued within reasonable timeframes. In addition, we recommended the Authority review its policies and procedures for the HOME program and establish timeframes for closing files and issuing management decisions on monitoring findings.

Authority will update their policies and procedures if they receive Home funding

Authority officials stated that at the present time they do not anticipate using HOME funding for Single Family activities. However, if the plans were to change in the future, they would review and update their policies and procedures for the Home program. *(For the previous Authority response, see Digest Footnote #1.)*

NEED TO FOLLOW ESTABLISHED SUBRECIPIENT MONITORING PROCEDURES FOR THE SECTION 8 PROJECT-BASED CLUSTER PROGRAM

Monitoring procedures not followed

The Authority did not follow its established policies and procedures for monitoring subrecipients (for-profit developments) of the Section 8 Project-Based (Section 8) program.

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipients' compliance with regulations applicable to the Section 8 Cluster program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient file to be closed within 90 days of the subrecipient being notified of any findings.

Close out reviews not completed timely

During our testwork over on-site review procedures performed for 25 subrecipients (with expenditures of \$39,724,460) of the Section 8 Cluster program, we noted the Authority did not close out the on-site review files

for four subrecipients (with expenditures totaling \$6,417,341) within 90 days. Delays in closing out the on-site reviews ranged from 4 to 99 days. (Finding 7, pages 34-35) **This finding has been repeated since 2011.**

We recommended the Authority ensure on-site monitoring files are completed and closed in accordance with established policies and procedures.

Authority will review their existing procedures

Authority officials stated Asset Management Services will review its existing procedures to ensure on-site monitoring files are completed and closed in accordance with established policies and procedures. (*For the previous Authority response, see Digest Footnote #2.*)

OTHER FINDING

The remaining finding pertained to Inadequate Controls Over User Access to Information Systems. We will review the Authority's progress towards the implementation of our recommendations in our next Single Audit and State Compliance examination.

AUDITOR'S OPINIONS

The financial audit report was previously released. The auditors stated the financial statements of the Authority as of and for the year ended June 30, 2016, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the Authority as required by the Uniform Guidance. The auditors stated the Authority complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on the Authority's major federal programs for the year ended June 30, 2016.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Authority for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

This Single Audit and State Compliance Examination were conducted by KPMG LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 - NEED TO FOLLOW ESTABLISHED SUBRECIPIENT MONITORING PROCEDURES FOR THE HOME INVESTMENT PARTNERSHIPS PROGRAM

2015: The Authority concurs with the recommendation. In fiscal year 2016, the Home staff has established new processes for ensuring monitoring reviews are completed in a timely manner. A spreadsheet tracks all dates of visits by Home staff and inspection staff. Home staff is working more closely with inspection staff via email and shared Excel tracking sheets to increase communication regarding joint responses in a timely manner. Further, as of June 2015, a supervisor reviews and signs all reviews before management responses are released to the subrecipient.

To meet required deadlines, the Authority will institute an automated reminder tool. This tool will only assist in reminding Home staff to request audits it will also assist in reminding management responses to be sent in the required period. Lastly, Home staff will update the policies and procedures to incorporate guidelines for timely responses to monitoring reviews as well as file close out.

#2 - NEED TO FOLLOW ESTABLISHED SUBRECIPIENT MONITORING PROCEDURES FOR THE SECTION 8 PROJECT-BASED CLUSTER PROGRAM

2015: The Authority concurs with the recommendation and will complete the recommended actions in the fiscal year ending June 30, 2016. While the Authority acknowledges delays in completing some steps of the oversight process within the internally-established timeline goals, all of the steps have been completed for all properties. A majority of the delays noted in the finding were related to one employee that was injured and out of the office for an extended period of time, subsequently resigned, and proceeding to hire a new employee for that position.