



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

**Financial Audit
 For the Year Ended June 30, 2019**

Release Date: February 27, 2020

FINDINGS THIS AUDIT: 3	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	2	2	2018	19-2		
Category 2:	0	1	1	2015	19-1		
Category 3:	0	0	0	2014		19-3	
TOTAL	0	3	3				
FINDINGS LAST AUDIT: 3							

INTRODUCTION

This digest covers the Illinois Housing Development Authority (Authority) Financial Audit as of and for the year ended June 30, 2019. The Authority's Compliance Examination (including the Single Audit) covering the year ended June 30, 2019 will be issued in a separate report at a later date.

SYNOPSIS

- **(19-1)** The Authority has not established adequate internal controls over the financial reporting process and has not established adequate internal controls over the recording of financial transactions within its books and records.

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.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2019

FINANCIAL POSITION - ALL FUNDS	2019	2018
Assets		
Cash and investments - unrestricted.....	\$ 856,957,867	\$ 763,043,850
Investments - restricted.....	1,092,121,142	709,126,352
Net Program loans receivable.....	1,165,719,162	1,215,019,862
Other.....	148,691,482	188,072,447
Total.....	<u>3,263,489,653</u>	<u>2,875,262,511</u>
Deferred Outflows of Resources.....	<u>4,933,932</u>	<u>523,772</u>
Liabilities		
Bonds and Notes Payable.....	1,386,721,017	1,164,424,724
Due to State of Illinois.....	357,690,050	324,010,464
Deposits held in escrow.....	147,791,446	139,757,584
Other.....	120,277,099	122,361,002
Total.....	<u>2,012,479,612</u>	<u>1,750,553,774</u>
Deferred Inflows of Resources.....	<u>1,456,229</u>	<u>5,145,477</u>
Net Position		
Net investment in capital assets.....	4,796,009	2,591,337
Restricted.....	1,005,658,719	887,322,089
Unrestricted.....	244,033,016	230,173,606
Total.....	<u>\$ 1,254,487,744</u>	<u>\$ 1,120,087,032</u>
ADMINISTRATIVE FUND OPERATIONS	2019	2018
Revenues		
Service Fees.....	\$ 7,228,447	\$ 8,364,853
Interest and investment income.....	26,187,738	29,161,392
Federal assistance programs.....	60,641,761	79,877,059
Other.....	18,135,607	21,299,132
Total.....	<u>112,193,553</u>	<u>138,702,436</u>
Expenses		
Salaries and benefits.....	22,753,645	19,970,427
Professional fees.....	2,947,651	2,349,129
Other general and administrative.....	2,773,953	2,677,724
Transfers, net.....	2,241,389	1,722,650
Financing Costs.....	2,314,172	503,859
Federal assistance programs.....	60,641,761	79,877,059
Provision for est. loss on loan receivable.....	(1,204,673)	1,638,493
Other.....	5,580,715	3,234,998
Total.....	<u>98,048,613</u>	<u>111,974,339</u>
Change in net position.....	<u>\$ 14,144,940</u>	<u>\$ 26,728,097</u>
EXECUTIVE DIRECTOR		
During Engagement: Audra Hamernik		
Current: Kristen Faust (effective 11/12/19)		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INACCURATE FINANCIAL REPORTING

Improvements needed in the recording and reporting of financial transactions

The Illinois Housing Development Authority (Authority) has not established adequate internal controls over the financial reporting process and has not established adequate internal controls over the recording of financial transactions within its books and records.

During the year ended June 30, 2019, the Authority made a number of changes in the financial reporting process in an effort to address the deficiencies in internal control over financial reporting which were identified and reported in previous audits. The Authority has a complex financial reporting process/structure and the Authority has imposed an aggressive fiscal year-end financial reporting timeline and deadline. The Authority did not amend its year-end financial reporting process or reporting deadlines to permit personnel to be adequately prepared or to provide adequate time to complete all necessary financial reporting activities.

Additionally, the Authority did not establish additional oversight or monitoring procedures to ensure the financial statements were properly prepared and presented. As a result, the draft financial statements prepared by management contained several errors which required adjustment to the financial statements or reporting to those charged with governance.

During our audit of the financial statements as of and for the year ended June 30, 2019, some of the items we noted during the audit are as follows:

- The Authority incorrectly reported program loans receivable disbursements, repayments, and net program loan receivable amounts within footnote 5 of the financial statements for the Illinois Affordable Housing Trust Fund (IAHT), Home Program Fund (HOME) and Mortgage Loan Program Fund (MLP). The loan repayments and net program loans receivable were incorrectly reported by (\$2,041,000) in the IAHT, the loan repayments and net program loans receivable were incorrectly reported by (\$3,551,000) and (\$3,552,000) respectively, in the HOME and the loan disbursements, loan repayments and net program loans receivable were incorrectly reported by \$557,000, (\$2,873,000) and (\$2,316,000) respectively, in the MLP. A proposed adjustment for these differences was recorded by the Authority.

Loan repayments, disbursements and net program receivable balances were not accurately reported in the financial statement footnote

\$44,611,000 error in the presentation of scheduled receipts of principal in the ARRA Fund

FY19 revenue was understated by \$14,173,346 in the Nonmajor Governmental Funds

Cash account was not properly reconciled

- The Authority incorrectly reported scheduled receipts of principal on gross program loans receivable in the Illinois Affordable Housing Trust Fund in the fiscal years subsequent to June 30, 2019 and thereafter, within footnote 5 of the financial statements. The fiscal year 2020 difference was \$1,404,000 and for the fiscal years after 2024 the difference was \$29,125,000. A proposed adjustment for these differences was recorded by the Authority.
- The Authority incorrectly reported scheduled receipts of principal on gross program loans receivable in the ARRA Fund in the fiscal years after 2024 within footnote 5 of the financial statements with a difference totaling \$44,611,000. A proposed adjustment for this difference was recorded by the Authority.
- The Authority incorrectly reported \$14,173,346 of fiscal year 2019 revenue to Nonmajor Governmental Funds as unearned revenue. A proposed adjustment for this error was recorded by the Authority.
- The Authority incorrectly reported the fiscal year 2019 debt activity of additions and deductions for Federal Home Loan Bank Advances within footnote 8 of the financial statements for the Administrative Fund. Specifically, additions and deductions were both overstated by \$14,000,000. As a result, proceeds from the sale of bonds and notes and principal paid on bonds and notes were overstated on the statement of cash flows. A proposed adjustment for this difference was recorded by the Authority.
- The Authority incorrectly classified \$22,580,000 of Housing Bonds Payable in the Mortgage Loan Program Fund as a noncurrent liability. The balance should be classified as a current liability as the related liquidity agreement expires within one year of June 30, 2019. A proposed adjustment for this difference was recorded by the Authority.
- The Authority incorrectly recorded an adjustment of \$466,662 to HOME federal funds revenue, resulting in an understatement of federal funds revenue within the HOME Program Fund and an overstatement of federal funds in the Nonmajor Governmental Funds for the year ended June 30, 2019. A proposed adjustment for this difference was recorded by the Authority.
- The Authority did not properly reconcile cash accounts and accounts payable suspense accounts at year end. As a result, cash was overstated by \$892,282, service fee revenue was understated by \$113,680, accrued

liabilities and other was overstated by \$999,212, and other current assets was understated by \$6,750 for the Administrative Fund. A proposed adjustment for these differences was not recorded by the Authority.

In addition, the following amounts were incorrectly reported within footnote 5 related to risk sharing loans:

Risk sharing loans within the financial statement footnote were incorrectly reported by (\$50,100,445)

- The Authority originally reported the number of risk sharing loans as 50 while the correct amount was 43 resulting in a difference of (7) loans.
- The Authority originally reported the total dollar amount of risk sharing loans as \$293,555,629 while the correct amount was \$243,509,219 resulting in a difference of (\$50,046,410).
- Total loans financed within the Administrative Fund was originally reported by the Authority as \$12,282,036 while the correct amount was \$12,336,070 resulting in a difference of \$54,034.
- The Authority originally reported the number of participation loans as 29 when the correct number was 22 resulting in a difference of (7) loans.
- The Authority originally reported the total dollar amount of participation loans as \$170,055,851 while the correct amount was \$119,955,406 resulting in a difference of (\$50,100,445).
- The Authority originally reported the total dollar amount of beneficial ownership interests in loans sold to the Federal Financing Bank as \$113,980,000 while the correct amount was \$111,930,000 resulting in a difference of (\$2,050,000).

A proposed adjustment for these differences was recorded by the Authority.

The Authority incorrectly classified interest paid on revenue bonds and notes within the statement of cash flows as an operating activity rather than as a noncapital financing activity in the amounts of (\$982,880), (\$10,023,029) and (\$22,241,291) for the Administrative Fund, Mortgage Loan Program Fund, and Single Family Program Fund, respectively. Additionally, the Authority incorrectly classified bank note cash collateral as an adjustment to reconcile operating income to net cash used in operating activities rather than as a noncapital financing activity in the amount of (\$14,950,000) for the Administrative Fund. A proposed adjustment for these differences was recorded by the Authority. (Finding 1, pages 86-93) **This finding has been repeated since 2015.**

We recommended the Authority review its current internal control policies and procedures to ensure financial transaction are accurately reported in the general ledger and the financial statements, including footnote disclosures.

Authority agrees with the auditors

Authority officials accepted the recommendation and stated they will implement appropriate internal controls and procedures to address the conditions noted within this finding.

OTHER FINDINGS

The remaining findings pertain to inaccurate financial reporting of investments and inadequate allowance for loan loss methodology and loan rating review process. We will review the Authority's progress towards implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Authority as of June 30, 2019, and for the year then ended, are fairly stated in all material respects.

The financial audit was conducted by KPMG LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK