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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

5-94-51100-10

REPORT DIGEST

**ILLINOIS DEVELOPMENT FINANCE AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
(In Accordance with the Single Audit Act
of 1984 and OMB Circular A-128)
FOR THE YEAR ENDED JUNE 30, 1994**

SYNOPSIS

- The Authority's internal accounting and administrative control system contained material weaknesses as evidenced by seven compliance findings relating to deficiencies in its internal control system. These weaknesses have raised serious concerns regarding the Authority's internal control structure. **Our report on compliance testing indicates there is more than a relatively low risk of noncompliance in other areas not tested in our current audit.**
- The Authority did not submit its required GAAP Reporting Packages to the Comptroller's Office on a timely basis. As of the end of our fieldwork, these reports had not been submitted.
- The Authority has not implemented formal procedures to monitor bond issuances and trustee compliance with bond agreements.
- The Authority has not implemented proper controls to ensure that a complete historical recording of grants exist to facilitate monitoring.

{Expenditures and Activity Measures are summarized on the reverse page.}

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RECYCLED PAPER · SOYBEAN INKS

ILLINOIS DEVELOPMENT FINANCE AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
For The Year Ended June 30, 1994

REVENUE AND EXPENSE STATISTICS	FY 1994	FY 1993	FY 1992
• Total Operating Revenue	\$3,344,956	\$1,737,514	\$3,819,219
<u>OPERATIONS TOTAL</u>	\$3,344,956	\$1,737,514	\$3,819,219
% of Total Revenues	100%	100%	100%
Application Fees	\$123,300	\$63,658	\$98,600
% of Total Revenues	3.7%	3.7%	2.6%
Annual Fees	\$2,699,706	\$1,114,831	\$1,528,627
% of Total Revenues	80.7%	64.2%	40.0%
Interest and Other Income	\$521,951	\$559,025	\$576,568
% of Total Revenues	15.6%	32.2%	15.1%
• Total Expenses/expenditures	\$7,303,063	\$4,245,162	\$3,954,720
<u>OPERATIONS TOTAL</u>	\$3,890,823	\$4,155,179	\$3,791,923
% of Total Operations	53.3%	97.9%	95.9%
Salaries and Benefits	\$1,288,861	\$1,807,902	\$1,567,133
% of Operations Expenses	33.1%	43.5%	41.3%
Average No. of Employees	23	32	30
Contractual Services	\$1,372,908	\$1,504,524	\$1,378,878
% of Operations Expenses	35.3%	36.2%	36.4%
All Other Operations Items	\$1,229,159	\$842,753	\$845,912
% of Operations Expenses	31.6%	20.3%	22.3%
<u>GRANTS TOTAL</u>	\$3,000,000	\$0	\$139,823
% of Total Expenses/expenditures	41.1%	0.0%	3.5%
Cost of Property and Equipment	\$684,886	\$624,219	\$490,195

SELECTED ACTIVITY MEASURES	FY 1994	FY 1993	FY 1992
• Total Direct Loan Amounts	\$1,227,583	\$587,000	\$1,196,673
• Jobs Created or Retained by Direct Loans	122	61	95
• Industrial Revenue Bonds (IRB)	\$181,075,000	\$444,930,000	\$368,293,750
• Jobs Created or Retained by IRB	741	594	1015
• Federal Program Amounts	\$277,000	\$648,000	\$990,000
• Jobs Created or Retained by Federal Programs	93	51	78

AGENCY DIRECTOR

During the Audit Period: Mr. Philip Howe, Acting Executive Director
Currently: Mr. Bobby J. Wilkerson, Executive Director

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROL SYSTEM

The Authority's internal accounting and administrative control system contained material weaknesses as evidenced by seven compliance findings relating to deficiencies in its internal control system. These deficiencies are disclosed in the following findings:

- The Authority failed to perform an annual inventory of all equipment items valued in excess of \$500 and to file all necessary reports with the Property Control Division of the Department of Central Management Services (DCMS). (Finding 1, page 9)
- The Authority was unable to reconcile its general ledger account balances due to the lack of monthly reconciliation procedures. (Finding 2, page 10)
- The Authority had not implemented the accounting controls necessary to ensure that transactions are properly recorded in the general ledger. (Finding 3, page 11)
- The Authority had not established proper loan disbursement and review procedures. (Finding 4, page 12)
- The Authority's management was not performing a timely and thorough review of cash disbursements. (Finding 5, page 13)
- The Authority had not implemented proper payroll controls for calculating final employee pay. (Finding 6, page 14)
- The Authority did not fully account for three programs in its books and records due to management's belief that the Authority was not ultimately responsible for any debt or appropriations related to the programs. (Finding 7, page 15)

The weaknesses noted above have raised serious concerns regarding the Authority's internal control structure. **Our report on compliance testing indicates there is more than a relatively low risk of noncompliance in other areas not tested in our current audit.**

Authority officials accepted our recommendations and have agreed to address the deficiencies noted in our findings.

UNTIMELY FILING OF GAAP REPORTING PACKAGES

The Authority did not submit its required GAAP Reporting Packages to the Illinois Comptroller's Office on a timely basis. This was due to the lack of qualified personnel to prepare the packages.

The Authority prepares an annual report which adjusts its financial information presentation to conform with generally accepted accounting principles (GAAP). The Authority's GAAP Reporting Packages were due to the Illinois Comptroller's Office by September 15, 1994. As of December 15, 1994, the Authority still had not submitted its GAAP Reporting Packages to the Illinois Comptroller's Office. These packages are necessary for the timely preparation of the State's annual report. (Finding 13, page 21)

Authority officials accepted our finding and recommendation to submit all reports timely.

FAILURE TO MONITOR BOND ISSUES AND TRUSTEE COMPLIANCE

The Authority had not implemented formal procedures to monitor bond issuances and trustee compliance with bond agreements.

The Authority was not able to compile a complete listing of all bonds issued and outstanding as of June 30, 1994. Management provided a listing of bonds outstanding, however, they expressed no confidence in the listing. Of the 25 confirmations sent to trustees, we received 17 responses. Four of these noted that the assigned trustee for the issuance was incorrect and two stated their records showed different amounts for the outstanding principal. (Finding 14, page 22)

Authority officials agreed with our recommendation to implement formal procedures to monitor bond issuances and trustee compliance with bond agreements.

INADEQUATE GRANT FUND MONITORING

The Authority had not implemented proper controls to ensure that a complete historical recording of grants exists to facilitate monitoring.

The Authority was unable to compile a complete listing of cumulative grant expenditures relating to the Illinois Development Action Grant (IDAG) Program. Historically, the IDAG Program grant expenditures have not been accounted for in the books and records of the Authority. Effective monitoring cannot be performed unless a complete listing is of grant expenditures is maintained for review. (Finding 15, page 23)

Authority officials did not agree with our finding and recommendation. They said that the Authority is merely a conduit for the IDAG Program funds. They also said that all grants were recorded in the minutes of various Board of Director's meetings.

We do not accept the Authority's position on this matter. The Authority was the primary grantor agency for the disbursement of IDAG program funds. As the grantor agency, the Authority had primary oversight responsibility for the proper expenditure of the IDAG funds in accordance with the State's grant requirements. Since the Authority did not provide documentation, we were unable to substantiate that program funds were properly disbursed and adhered to the grant requirements. Merely maintaining a list of grants does not constitute a proper monitoring of grant fund expenditures for compliance with program requirements.

OTHER FINDINGS

The remaining findings were less significant and have been given appropriate attention by the Authority. We will review the Authority's progress towards the implementation of our recommendations in our next compliance audit. However, it should be noted that the auditors felt that there was more than a relatively low risk that other noncompliance might exist for transactions not covered by our tests.

Authority responses were provided by Mr. Philip Howe, Acting Executive Director.

AUDITORS' OPINION

Our auditors state that the June 30, 1994 financial statements of the Illinois Development Finance Authority are fairly presented.



WILLIAM G. HOLLAND, Auditor General

WGH:WLB
August 4, 1995

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>Current Audit</u>	<u>Prior Audit</u>
Audit findings	20	9
Repeated audit findings	4	6
Prior recommendations implemented	5	2

SPECIAL ASSISTANT AUDITORS

The accounting firm of Arthur Andersen LLP was our special assistant auditor.