



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS FINANCE AUTHORITY

**Single Audit and Compliance Examination
For the Year Ended June 30, 2012**

Release Date: March 28, 2013

Summary of Findings for this Fiscal Year:

| | |
|---------------------------------------|-----------|
| • Compliance | 9 |
| • Financial Audit (released 12-20-12) | <u>2</u> |
| Total findings: | 11 |
| Total last audit: | 13 |
| Repeated from last audit: | 6 |

SYNOPSIS

- The Authority did not comply with certain monitoring and reporting requirements of the United States Department of Agriculture's Intermediary Relending Program.
- The Authority's internal controls for monitoring covenant compliance for conduit bonds were inadequate.
- The Authority was unable to provide documentation to substantiate compliance with the Financially Distressed City Law of the Illinois Municipal Code.
- The Authority did not comply with contracting procedures.

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

ILLINOIS FINANCE AUTHORITY
SINGLE AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012

| FINANCIAL INFORMATION | 2012 | 2011 | 2010 |
|---|----------------------|----------------------|----------------------|
| Total Revenues..... | \$ 20,649,049 | \$ 18,344,998 | \$ 17,847,499 |
| Interest on loans..... | \$ 9,242,812 | \$ 8,778,034 | \$ 9,779,437 |
| % of Total Revenues..... | 44.7% | 47.9% | 54.8% |
| Interest and investment income..... | \$ 2,595,352 | \$ 4,766,951 | \$ 5,130,628 |
| % of Total Revenues..... | 12.6% | 26.0% | 28.7% |
| Administrative service fees..... | \$ 2,765,760 | \$ 4,736,371 | \$ 5,031,842 |
| % of Total Revenues..... | 13.4% | 25.8% | 28.2% |
| Other revenues..... | \$ 6,045,125 | \$ 63,642 | \$ (2,094,408) |
| % of Total Revenues..... | 29.3% | 0.3% | -11.7% |
| Total Expenses..... | \$ 18,613,885 | \$ 15,602,475 | \$ 18,678,836 |
| Interest expense..... | \$ 11,057,629 | \$ 12,318,840 | \$ 13,486,355 |
| % of Total Expenses..... | 59.4% | 79.0% | 72.2% |
| Employee related expenses..... | \$ 1,790,048 | \$ 2,079,082 | \$ 3,161,671 |
| % of Total Expenses..... | 9.6% | 13.3% | 16.9% |
| Professional services..... | \$ 1,447,493 | \$ 1,376,247 | \$ 1,295,949 |
| % of Total Expenses..... | 7.8% | 8.8% | 6.9% |
| Occupancy costs..... | \$ 331,014 | \$ 345,249 | \$ 371,620 |
| % of Total Expenses..... | 1.8% | 2.2% | 2.0% |
| Other expenses..... | \$ 3,987,701 | \$ (516,943) | \$ 363,241 |
| % of Total Expenses..... | 21.4% | -3.3% | 2.0% |
| Average Number of Employees..... | 22 | 23 | 27 |

| SELECTED ACTIVITY MEASURES (UNAUDITED) | 2012 | 2011 | 2010 |
|--|---------------|---------------|---------------|
| Conduit debt outstanding (in thousands)..... | \$ 24,502,256 | \$ 25,492,805 | \$ 24,427,931 |
| Number of conduit debt issues outstanding..... | 1,617 | 1,726 | 1,762 |
| New bond issues (in thousands)..... | \$ 1,975,096 | \$ 2,575,587 | \$ 3,360,133 |
| Number of new issues | 37 | 45 | 52 |
| Total expenses/total number of issues..... | \$ 11,511 | \$ 10,107 | \$ 10,877 |

| AGENCY DIRECTOR |
|--|
| During Examination Period: Mr. Christopher Meister |
| Currently: Mr. Christopher Meister |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE MONITORING AND REPORTING REQUIREMENTS IN THE INTERMEDIARY RELENDING PROGRAM

The Authority did not comply with certain monitoring and reporting requirements of the United States Department of Agriculture's (USDA) Intermediary Relending Program (IRP).

Under the IRP, the Authority received a loan on December 14, 1990 for \$1,500,000 from the USDA to act as the USDA's intermediary to provide loans to the Authority's borrowers (ultimate recipients) to fund development projects, business expansion, and the creation and retention of jobs. At June 30, 2012, the Authority's outstanding loan balance owed to the USDA totaled \$545,493.

During testing, the auditors noted the following:

Authority did not receive annual certifications required by the loan's covenants

- The Authority did not request or obtain an annual certification of management adherence to employment practices covenants from ultimate recipients. At June 30, 2012, the Authority had three outstanding loans, net of the allowance for doubtful accounts, totaling \$249,164.
- One of two (50%) semi-annual Report of IRP/RDLF Lending Activity forms tested did not show evidence of an independent review prior to the report's submission to the USDA.

Authority did not perform an independent review of reports

Authority management stated they lack sufficient guidance from the USDA on what constitutes a certification of management adherence to employment practices and the independent review was not completed due to other competing work priorities taking precedence over the independent review. (Finding 3, pages 23-25).

This finding was first reported in 2010.

We recommended the Authority have ultimate recipients complete an annual certification of management adherence to employment practices, or seek an amendment to the *Illinois Intermediary Relending Program Work Plan*. Further, the Authority should ensure each report undergoes an independent review by appropriate personnel prior to filing the report.

Authority officials agree with auditors

Authority officials accepted the recommendation, indicating they are both performing a review of the Intermediary Relending Program and working on establishing a formal compliance function for the Authority. *(For the previous Authority response, See Digest Footnote #1)*

NEED TO ENHANCE INTERNAL CONTROLS FOR MONITORING COVENANT COMPLIANCE FOR OUTSTANDING CONDUIT BONDS

The Authority did not have adequate internal controls to properly maintain records for monitoring covenant compliance for conduit bonds.

Authority unable to substantiate receipt of required documents from borrowers

During testing of the Authority's records for 40 conduit bonds outstanding, the auditors noted the Authority could not substantiate the receipt of required documentation from borrowers or show evidence of monitoring. Some of the conditions noted follow:

Missing execution documents

- Seven bond issues (18%) were missing a total of nine execution documents the Authority should have received prior to each bond's closing date. The missing documentation included three official statements, two loan agreements, one financing agreement, two trust indentures, and one master trust indenture.

Missing revised schedule

- Four bond issues (10%) were missing the revised amortization and payment schedule due to the partial prepayment of the amount then owing by the borrower.

Missing certificates of substantial completion

- Eleven bond issues (28%) were missing a certificate of substantial completion for the capital project financed by the bond issue.

Missing reports on construction workers employed

- Nine bond issues (23%) were missing a written report from the borrower setting forth the total number by each type of construction workers employed in the completion of the capital project.

Missing reports on full-time, non-construction employees working at the project

- Seven bond issues (18%) were missing a written report from the borrower setting forth the number of full-time equivalent non-construction workers employed at the project for the preceding State fiscal year.

Missing financial statement

- One bond issue (3%) was missing the individual borrower’s annual financial statements representation that the borrower had always maintained a minimum net worth and minimum amount of liquid assets during the preceding calendar year.

Missing annual certifications

- Twenty-nine bond issues (73%) did not have an annual certification that the borrower has performed a review of its activities during the preceding year to determine that the borrower is not in default with any covenant.

Missing audited financial statements

- Six bond issues (15%) were missing the borrower’s annual audited financial statements.

Further, the Authority could not substantiate the receipt of required documentation from the bond trustee or show evidence of monitoring of the following significant bond covenants:

Missing trustee’s quarterly reports

- Seven bond issues (18%) were missing the bond trustee’s quarterly statements.

Missing bond trustee’s statement

- Seven bond issues (18%) were missing the bond trustee’s statement for certain bond funds, such as the interest fund, bond sinking fund, redemption fund, debt service reserve fund, principle reserve fund, and revenue fund.

Authority management stated they have not implemented an organized records management system capable of identifying where the specific records requested are retained in the Authority’s files. (Finding 5, pages 29-31).

We recommended the Authority develop, establish, and maintain a recordkeeping system documenting receipt of the required bond compliance documents, which is capable of identifying the location of documents retained.

Authority officials agree with auditors

Authority officials accepted the recommendation, indicating they are taking corrective action to implement an electronic records management system.

NEED TO DOCUMENT MONITORING OF THE CITY OF EAST ST. LOUIS' COMPLIANCE WITH THE FINANCIALLY DISTRESSED CITY LAW

The Authority was unable to provide documentation to the auditors to substantiate compliance with the Financially Distressed City Law of the Illinois Municipal Code.

During testing, the auditors noted the following:

Authority unable to substantiate monitoring of the receipt of required documentation from the City of East St. Louis

- The Authority did not have documentation substantiating the monitoring of the timeliness of the submission of an adopted annual balanced budget and annual financial audit report from the City of East St. Louis.

Authority unable to substantiate their review of the City of East St. Louis' budget to ensure the adopted budget was balanced

- The Authority did not have documentation substantiating the review of the City of East St. Louis' budget or consultations, if any, with the East St. Louis Financial Advisory Authority to ensure the adopted budget was balanced.

In the event the Authority concludes the City of East St. Louis failed to adopt a balanced budget or failed to timely submit either the adopted annual balanced budget or annual financial audit report, the Authority shall certify the specific failure in writing to the Governor. In the event of the Authority filing a noncompliance certification with the Governor, the East St. Louis Financial Advisory Authority and City of East St. Louis resume each entity's respective powers and responsibilities pursuant to the Financially Distressed City Law of the Illinois Municipal Code.

Authority management stated they have not implemented an organized records management system capable of identifying where the specific records requested are retained in the Authority's files. They noted, however, that pursuant to the Illinois Municipal Code, the Authority's monitoring requirements and the entire East St. Louis Financial Advisory Authority will dissolve 30 days after the Authority certifies to the Governor that the City of East St. Louis has discharged all indebtedness related to bonds issued by the Authority. As of March 11, 2013, the current payment schedule calls for the payment of all outstanding obligations by the City of East St. Louis in November 2014. (Finding 6, pages 32-34).

We recommended the Authority appropriately document monitoring and review activities of submissions of financial information, to support the Authority's determination to submit or not to submit a noncompliance certification to the Governor. Further, the Authority should develop, establish, and maintain a recordkeeping system documenting receipt of the required bond documents, which is capable of identifying the location of documents retained by the Authority.

Authority officials agree with auditors

Authority officials accepted the recommendation.

NEED TO IMPROVE COMPLIANCE WITH CONTRACTING PROCEDURES

The Authority did not comply with contracting procedures.

During testing, the auditors noted the following:

Contracts not executed prior to the start date of services

- Four of nine (44%) contracts tested were not signed by all parties before the earliest service date allowed under the contract. The length of time between the beginning date of the contractual agreements and the final signature date ranged from four to 42 days.

Required contract content specifications not followed

- One of nine (11%) contracts tested was for legal services and did not have the signature of the Authority's Executive Director, execution date, and the initials of the Executive Director where revisions to the contract were proposed by the vendor. These revisions included changing the contract amount from \$10,000 to \$15,000 and crossing out some vendor certifications.

Authority management stated the untimely execution of contracts was due to a vendor's failure to timely return signed contracts, but prompt action to secure and commence services was necessary to protect the Authority's interest while the contract process was completed. Further, the Authority stated the exceptions related to the changed contract were due to oversight. (Finding 10, pages 43-44). **This finding was first reported in 2010.**

We recommended the Authority implement controls to ensure all contractual agreements are reduced to writing prior to the start date of contractual services. Further, the Authority should ensure all contractual agreements meet

the contract content specifications of the Statewide Accounting Management System.

Authority officials agree

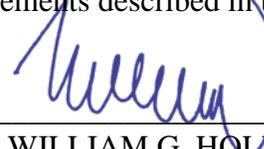
Authority officials accepted the recommendation. *(For the previous Authority response, see Digest Footnote #2)*

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Authority. We will review the Authority's progress towards the implementation of our recommendations in our next examination.

ACCOUNTANTS' OPINION

Our auditors qualified their report on State Compliance for Finding 12-1 and Finding 12-5. Except for the noncompliance described in these findings, the auditors stated the Authority complied, in all material respects, with the requirements described in the report.



WILLIAM G. HOLLAND
Auditor General

WGH:djn:rt

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this engagement were E.C. Ortiz & Co. LLP.

DIGEST FOOTNOTES

#1 - NEED TO COMPLY WITH MONITORING AND REPORTING REQUIREMENTS

2011 - The Authority accepts the Auditor's recommendation. The Authority is implementing controls to ensure compliance with the Intermediary Relending Program (IRP). The Authority will implement a second review of all reports submitted to the U.S. Department of Agriculture (USDA)

#2 - NEED TO IMPROVE COMPLIANCE WITH CONTRACTING PROCEDURES

2011 - The Authority accepts the Auditor's recommendation. The Authority commits material resources to compliance with the Procurement Code. The Authority recognizes that this is a repeat finding. The Authority will continue to work towards compliance in light of the State's Procurement Reforms.